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DIGEST

A summary of the 1986 operations of 1,245 independent community pharmacies

The most comprehensive report of independent community pharmacy operations available

Published annually in the interest of sound management

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Corporate Mission

Eli Lilly and Company is a research-based corporation that develops, manufactures, and markets human medicines, medical instrument systems, diagnostic products, and agricultural products.

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The company is committed to the discovery and marketing of innovative products of the highest quality that offer benefits to customers in all of our markets.

The company is dedicated to the highest levels of ethics, integrity, and excellence in research, manufacturing, marketing, and all other phases of its operations.

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The company feels an obligation to be a good corporate citizen wherever it operates.

Foreword

The LILLY DIGEST is designed primarily as a resource for use by managers to evaluate pharmacy operating data. For this reason, most tabulations are broken into several categories which allow comparative analysis of individual firms. Since the DIGEST has been published annually for over 50 years, past data were used to identify trends.

The DIGEST sample is based on returns received from a mailing to all community pharmacies throughout the United States. Averages of these data are reported without editorial opinion. Each LILLY DIGEST participant received a comprehensive, personalized analysis of that pharmacy's operating data, with written discussion of the key findings.

The self-analysis section of the LILLY DIGEST (pages 25 through 33) contains 22 summaries of 1986 operating figures, arranged according to total sales volume and daily prescription activity. This breakdown allows comparative analysis with a summary that is drawn from pharmacies having similar activity to the pharmacy being evaluated.

Eli Lilly and Company extends thanks to the more than 1,200 participants who contributed their operating figures. Without their support, this edition would not have been possible.

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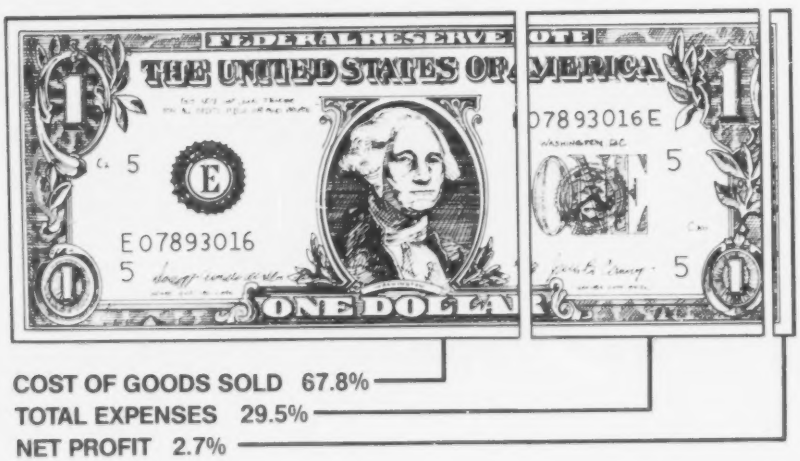
Executive Summary

Total sales grew 10% in the average Lilly Digest pharmacy during 1986 and established a new record of $653,593 (Table 1). However, the cost of goods sold rose at a faster rate than sales, with the result that gross margin declined to a record low of 32.2% of sales—the lowest since 1942. Percentagewise, total expenses also declined, producing a lower net profit before taxes of 2.7% of total sales (Figure 1).

Figure 1 *Distribution of sales dollar for 1986*



The growth rate of prescription sales again surpassed the increase in other sales, both in dollars and as a percentage. Prescription revenue accounted for almost 64% of total sales volume in the typical Lilly Digest pharmacy—a new record and a 13.1% increase over the previous year. Other sales advanced just over 5%, thereby reversing the decline reported for operating year 1985.

The cost-of-goods-sold figure continued an uptrend that began in 1982 and reached 67.8% of sales during 1986. Managers usually respond to a rising cost of goods sold by reviewing pricing policies, reevaluating purchase practices, or examining expenses in light of net profit goals. However, the net effect of these efforts was not sufficient to offset the rise in the cost-of-goods-sold figure, and the result was a decrease in net profit before taxes from 2.8% to 2.7% of sales. Return on investment, perhaps the single most important measure of business effectiveness, fell to 19.8%—the lowest figure in more than a decade (Operating Trends, page 23). This was the first time since 1972 that return on investment fell below the 20% level.

Although total expenses declined percentagewise, they rose over $15,000, or 8.6% from the year earlier. During 1986, the proprietor's or manager's salary was higher in dollars but remained unchanged as a percent of sales at 5.9%. Employees' wages, also higher in dollars (up over $4,700), accounted for a smaller share of the sales dollar at 10% of total sales (down from 10.2% for 1985). Rental expense increased $1,100 but declined from 2.4% to 2.3% of sales during 1986. Miscellaneous operating costs (including all expenses other than proprietor's or manager's salary, employees' wages, and rent) rose over $6,000, an increase of 9% from the previous year. However, these costs took the same share of the sales dollar at 11.3%.

Net profit before taxes was 7.5% higher than the 1985 figure—up over $1,200. The increase in net profit dollars and in the salary drawn by the owner-manager resulted in total income for the proprietor of over $56,000 before taxes. However, as a percentage of sales, proprietor's income declined slightly from 8.7% to 8.6%.

Total inventory investment rose in dollars to over $93,000, but decreased as a percent of sales from 14.9% to 14.3%. This relationship meant greater sales productivity per inventory dollar. Both the prescription department and other sales contributed to the improved sales productivity.

Prescription inventory required about $4,400 more in 1986 than in the previous year; however, it was slightly lower as a percent of sales at 10.4%.

The greater prescription revenue for the average Lilly Digest pharmacy resulted from a 2.7% increase in the number of prescriptions dispensed accompanied by a rise of $1.32 in the average prescription charge to $14.36. The increase in new prescription activity outpaced a decline in renewed prescriptions, which resulted in a record 29,106 total prescriptions dispensed during 1986. This was the first time in Digest history that total prescriptions dispensed surpassed the 29,000 mark.

The size of the average Lilly Digest pharmacy grew about 5% during 1986 to just over 2,800 square feet. Sales productivity per square foot of selling space increased about $10 from the previous year (up to $229.57)—a 4.4% gain. Rent per square foot also rose, however, and now stands at $5.44. The typical Lilly Digest pharmacy was open one hour less during 1986, at 61 hours per week.

Key operating statistics based on pharmacy hours open provide figures useful for comparison. Prescription sales per pharmacy hour open advanced almost 15% to about $132 during 1986. Other sales per store hour open also increased to over $74—a gain of close to 7% from the 1985 figure. Total prescriptions dispensed per hour of operation rose from 8.8 to 9.2 during 1986. This figure has been increasing steadily since 1980.

Table 1 *Current trends in pharmacy operations*

Averages per Pharmacy	1986 1,245 Pharmacies	1985 1,378 Pharmacies	Amount and Percent of Change
Sales			
Prescription	$417,895— 63.9%	$369,595— 62.2%	+ $48,300—13.1%
Other	235,698— 36.1%	224,323— 37.8%	+ $11,375— 5.1%
Total	$653,593—100.0%	$593,918—100.0%	+ $59,675—10.0%
Cost of goods sold	443,390— 67.8%	400,255— 67.4%	+ $43,135—10.8%
Gross margin	$210,203— 32.2%	$193,663— 32.6%	+ $16,540— 8.5%
Expenses			
Proprietor's or manager's salary	$ 38,605— 5.9%	$ 35,196— 5.9%	+ $ 3,409— 9.7%
Employees' wages	65,073— 10.0%	60,316— 10.2%	+ $ 4,757— 7.9%
Rent	15,266— 2.3%	14,166— 2.4%	+ $ 1,100— 7.8%
Heat, light, and power	5,274— 0.8%	5,040— 0.8%	+ $ 234— 4.6%
Accounting, legal, and other professional fees	3,007— 0.5%	2,678— 0.5%	+ $ 329—12.3%
Taxes (except on buildings, income, and profit) and licenses	9,454— 1.4%	9,148— 1.5%	+ $ 306— 3.3%
Insurance (except on buildings)	7,070— 1.1%	5,978— 1.0%	+ $ 1,092—18.3%
Interest paid	5,228— 0.8%	4,930— 0.8%	+ $ 298— 6.0%
Repairs	2,669— 0.4%	2,335— 0.4%	+ $ 334—14.3%
Delivery	2,224— 0.3%	2,260— 0.4%	− $ 36— 1.6%
Advertising	6,585— 1.0%	6,589— 1.1%	− $ 4— 0.1%
Depreciation (except on buildings)	8,239— 1.3%	7,701— 1.3%	+ $ 538— 7.0%
Bad debts charged off	1,119— 0.1%	865— 0.1%	+ $ 254—29.4%
Telephone	2,534— 0.4%	2,353— 0.4%	+ $ 181— 7.7%
Miscellaneous	20,057— 3.1%	17,545— 3.0%	+ $ 2,512—14.3%
Total expenses	$192,404— 29.5%	$177,100— 29.8%	+ $15,304— 8.6%
Net profit (before taxes)	$ 17,799— 2.7%	$ 16,563— 2.8%	+ $ 1,236— 7.5%
Add proprietor's withdrawals	38,605— 5.9%	35,196— 5.9%	+ $ 3,409— 9.7%
Total income of self-employed proprietor (before taxes on income and profits)	$ 56,404— 8.6%	$ 51,759— 8.7%	+ $ 4,645— 9.0%
Value of inventory at cost and as a percent of sales			
Prescription	$ 43,296— 10.4%	$ 38,939— 10.5%	+ $ 4,357—11.2%
Other	50,258— 21.3%	49,375— 22.0%	+ $ 883— 1.8%
Total	$ 93,554— 14.3%	$ 88,314— 14.9%	+ $ 5,240— 5.9%
Annual rate of turnover of inventory	4.8 times	4.6 times	
Size of area and sales per square foot*	sq. ft.	sq. ft.	
Prescription	429 $963.41	427 $859.74	+ 2— 0.5%
Other	2,379 97.09	2,245 98.37	+ 134— 6.0%
Total	2,808 $229.57	2,672 $219.98	+ 136— 5.1%
Number of prescriptions dispensed			
New	16,080— 55.2%	14,086— 49.7%	+ 1,994—14.2%
Renewed	13,026— 44.8%	14,261— 50.3%	− 1,235— 8.7%
Total	29,106—100.0%	28,347—100.0%	+ 759— 2.7%
Prescription charge	$14.36	$13.04	+ $ 1.32—10.1%
Number of hours per week			
Pharmacy was open	61 hours	62 hours	− 1
Worked by proprietor	48 hours	49 hours	− 1
Worked by employed pharmacist(s)	36 hours	36 hours	no change
Sales and prescription activity per pharmacy hour open			
Prescription sales	$131.74	$114.64	+ $ 17.10—14.9%
Other sales	$ 74.31	$ 69.58	+ $ 4.73— 6.8%
Prescriptions dispensed	9.2	8.8	

*Based on averages of pharmacies that reported all data

NOTE: These national averages are presented to give a composite picture of the average Lilly Digest pharmacy. Comparisons for analysis should be based on the operations of pharmacies of comparable sales and prescription size which appear in one of the 22 arrangements in the Self-Analyses section of the Lilly Digest.

Balance Sheet

Balance sheet figures submitted by 873 pharmacies are summarized in Table 2. In comparison with 1985 data, fixed assets declined both in dollars and as a percent of sales during 1986. This may suggest that owners have not increased their investment in fixtures and equipment in relation to sales growth. One reason may be the reduced profitability (from 3.3 to 3.2% of sales) and, therefore, decreased retained earnings which are a major source of funds for this type of expenditure. Net working capital grew almost $2,400 (up 3.2%). This resulted primarily from a sizable increase of about $2,500 in the cash account. Long-term liabilities were up substantially to over $26,000. These notes resulted in total debt to net worth rising to 74.9%. Net sales to net worth increased to 6.2 times, meaning that each equity dollar carried $6.20 in annual sales. Each ownership dollar returned just under twenty cents before tax on profit.

Table 2 *Current trends in balance sheet information and financial ratios*

Averages per Pharmacy	December 31, 1986 (873 Pharmacies)	Percent of Sales	December 31, 1985 (1,009 Pharmacies)	Percent of Sales	Amount and Percent of Change
Assets					
Current assets					
Cash	$ 19,467— 13.9%	3.9%	$ 16,907— 12.4%	3.5%	+ $ 2,560—15.1%
Accounts receivable	19,726— 14.1%	4.0%	19,518— 14.4%	4.1%	+ $ 208— 1.1%
Inventory	72,253— 51.7%	14.6%	73,297— 54.0%	15.3%	− $ 1,044— 1.4%
Total current assets	$111,446— 79.7%	22.5%	$109,722— 80.8%	22.9%	+ $ 1,724— 1.6%
Fixed assets					
Fixtures and equipment and leasehold improvements (net after reserve for depreciation)	18,463— 13.2%	3.7%	19,444— 14.3%	4.1%	− $ 981— 5.0%
Other assets					
Prepaid expenses, deposits, etc.	9,882— 7.1%	2.0%	6,676— 4.9%	1.4%	+ $ 3,206—48.0%
Total assets*	$139,791—100.0%	28.2%	$135,842—100.0%	28.4%	+ $ 3,949— 2.9%
Liabilities					
Current and accrued liabilities					
Accounts payable	$ 20,442— 14.6%	4.1%	$ 20,453— 15.1%	4.3%	− $ 11— 0.1%
Notes payable (within one year)	7,456— 5.3%	1.5%	8,355— 6.2%	1.7%	− $ 899—10.8%
Accrued expenses and other liabilities	5,753— 4.1%	1.2%	5,496— 4.0%	1.1%	+ $ 257— 4.7%
Total current and accrued liabilities	$ 33,651— 24.0%	6.8%	$ 34,304— 25.3%	7.1%	− $ 653— 1.9%
Long-term liabilities					
Notes payable (later than one year)	26,232— 18.8%	5.3%	23,528— 17.3%	4.9%	+ $ 2,704—11.5%
Total liabilities	$ 59,883— 42.8%	12.1%	$ 57,832— 42.6%	12.0%	+ $ 2,051— 3.5%
Net Worth	79,908— 57.2%	16.1%	78,010— 57.4%	16.4%	+ $ 1,898— 2.4%
Total liabilities and net worth*	$139,791—100.0%	28.2%	$135,842—100.0%	28.4%	+ $ 3,949— 2.9%
Net working capital	$ 77,795	15.7%	$ 75,418	15.8%	+ $ 2,377— 3.2%
Sales	$495,342	100.0%	$478,297	100.0%	+ $17,045— 3.6%
Purchases	$335,473	67.7%	$320,729	67.1%	+ $14,744— 4.6%
Net profit (before taxes)	$ 15,845	3.2%	$ 15,630	3.3%	+ $ 215— 1.4%

Financial Ratios		
Current assets to current liabilities	3.3 times	3.2 times
Net sales to net worth	6.2 times	6.1 times
Net profit (before taxes) on net worth	19.8%	20.0%
Total debt to net worth	74.9%	74.1%

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

Sales Volume Summary

Adequate sales volume provides the base on which a successful pharmacy operation is built. However, substantial sales activity itself is not the sole objective of owner-managers. Equally important is the need to control operating and merchandise costs so that a reasonable net profit and return on investment will be realized.

LILLY DIGEST sales figures are adjusted to exclude refunds, returns, and allowances to customers. Sales and excise taxes are also deducted. The cost of goods sold includes freight-in and is reduced by supplier discounts.

Sales volume and operating figures vary among different types of pharmacies. Therefore, consideration should be given to the type of pharmacy business under evaluation when sales data alone are used for comparative purposes.

Major operating statistics vary with total sales volume, as Table 3 indicates. Consistent with the trends reported in earlier editions of the DIGEST, gross margin and total expenses tend to decline percentagewise as total sales rise. However, the net profit percent tends to shrink at higher sales volumes, since total expenses decline at a slower rate than does gross margin.

Table 3 shows the large share of total expenses represented by the total wage package. Proprietor's or manager's salary generally falls percentagewise as total sales rise, whereas employees' wages trend upward; however, the total wage package tends to decline. Because the total wage package is a major component of total expenses and, therefore, affects net profit, management's goal should be to increase output per personnel hour. Full productivity is often a function of the business available rather than the disposition of employees. Therefore, the timing of the hiring of new employees is an important management decision.

Gross Margin

As sales grow, the gross margin tends to decrease as a percent of sales. The ratio of prescription sales to total sales also declines as total sales advance. Stores with fewer than $200,000 in sales reported prescription income of 77.6% of sales and a gross margin of 35.0%. Pharmacies with income in excess of $1,500,000 posted prescription revenue amounting to 46.3% of sales and a gross margin of 31.2%. These data suggest that the sales mix changes as volume increases, with the larger stores showing a greater proportion of general merchandise sales and a corresponding decline in gross margin.

Expenses

Total expenses appear high as a percent of sales when annual sales are less than $200,000, particularly in newly opened pharmacies where sales are yet to reach full potential. As sales volume increases in these operations, this fixed portion of expenses, which is sizable, tends to decline percentagewise and contributes to a gradual decrease in total expenses from 35.0% to 28.7%.

Compensation

As sales volume rises, there is a substantial difference between the trends of employees' wages and proprietor's salary. Proprietor's salary grows dollarwise from over $21,000 in the lowest-volume stores to almost $59,000 in the largest operations. However, percentagewise, this expense falls from 14.2% to 2.9% of sales. Conversely, employees' wages rise from 5.5% in pharmacies with sales under $200,000 to 12.5% in units with revenue in excess of $1,500,000. This larger expenditure for employees' wages may coincide with the larger staff needed to operate a merchandise-oriented store having longer business hours. Also, the increased prescription activity in these pharmacies necessitates additional professional staff, which also contributes to the higher employees' wages figure.

Miscellaneous Operating Costs

This expense statistic appears to fluctuate within a relatively narrow range and shows no definitive trend as sales volume increases. However, since these costs represent about one-third of total expenses, control of each of the twelve items that constitute this expense category must be maintained to assure acceptable profitability.

Rent

Overall, rent remains relatively constant as sales volume rises. In newer pharmacies, rental expense tends to appear high as a percent of sales because the dollar amount is usually fixed even though full sales potential has yet to be reached. Rental expenditures also vary according to size and location of the pharmacy. A more detailed discussion of rent appears on pages 16 and 17.

Net Profit

Net profit percentage, the difference between gross margin and total expenses, is not clearly related to sales volume, as Table 3 shows. Both the highest and lowest sales volume operations tend to report a smaller net profit percentage than do the mid-range pharmacies. A more detailed discussion of net profit can be found on page 15.

Inventory

Traditionally, merchandise inventory represents the largest investment of a typical independent community pharmacy. Because of its influence on profitability, this asset should be managed with careful and adequate attention. Management's skill in controlling inventory is directly tied to cash flow, which is critical to business success. A successfully implemented inventory control program takes into account such things as purchasing quantities commensurate with sales, seasonal variation, changing usage patterns, and monitoring pilferage. Management's continuing challenge is to keep inventory investment at the lowest level possible to support advancing sales trends but without compromising customer services.

One method of assessing the effectiveness of an inventory control program is the "turnover ratio." This ratio represents the number of times the average inventory is sold and replaced during the year. Table 3 shows that the inventory turnover ratio tends to increase as total sales grow, even though the inventory investment rises.

Pharmacy Hours

During 1986, the average LILLY DIGEST pharmacy was open 61 hours per week—one hour less than in 1985 (Table 1). As seen in Table 3, the number of hours a store is open is directly related to sales volume. Pharmacies with less than $450,000 in total sales were open fewer than 60 hours per week. Stores with sales volume between $450,000 and $1,000,000 were open from 60 to 66 hours per week. Above the $1,000,000 level, the average hours of pharmacy operation ranged from 70 to 77. The decision to remain open longer hours must include projections of both sales and expenses to measure the impact of these extended hours on profitability.

Table 3 *Summary of sales volume in 1986*

Averages per Pharmacy	Total Sales Under $200,000 (73 Pharmacies)	Total Sales $200,000 to $250,000 (60 Pharmacies)
Sales		
Prescription	$116,617— 77.6%	$168,133— 73.7%
Other	33,612— 22.4%	59,883— 26.3%
Total	$150,229—100.0%	$228,016—100.0%
Cost of goods sold	97,654— 65.0%	147,769— 64.8%
Gross margin	$ 52,575— 35.0%	$ 80,247— 35.2%
Expenses		
Proprietor's or manager's salary	$ 21,354— 14.2%	$ 24,362— 10.7%
Employees' wages	8,259— 5.5%	15,120— 6.6%
Rent	5,570— 3.7%	7,069— 3.1%
Miscellaneous operating costs	17,364— 11.6%	27,113— 11.9%
Total expenses	$ 52,547— 35.0%	$ 73,664— 32.3%
Net profit (before taxes)	$ 28— 0.0%	$ 6,583— 2.9%
Add proprietor's withdrawals	21,354— 14.2%	24,362— 10.7%
Total income of self-employed proprietor (before taxes on income and profits)	$ 21,382— 14.2%	$ 30,945— 13.6%
Value of inventory at cost and as a percent of sales		
Prescription	$ 18,002— 15.4%	$ 23,320— 13.9%
Other	9,511— 28.3%	17,997— 30.1%
Total	$ 27,513— 18.3%	$ 41,317— 18.1%
Annual rate of turnover of inventory	3.5 times	3.6 times
	sq. ft.	sq. ft.
Size of area and sales per square foot*	1,049 $143.21	1,680 $135.91
Rent per square foot*	$5.31	$4.20
Number of prescriptions dispensed		
New	4,847— 55.7%	6,715— 55.9%
Renewed	3,853— 44.3%	5,287— 44.1%
Total	8,700—100.0%	12,002—100.0%
Prescription charge	$13.40	$14.01
Number of hours per week		
Pharmacy was open	48 hours	51 hours
Worked by proprietor	44 hours	46 hours
Worked by employed pharmacist(s)	8 hours	14 hours

*Based on averages of pharmacies that reported all data

Employed pharmacist hours worked per week were generally lower during 1986 than those in stores with similar sales in 1985. This probably reflects the expanded use of auxiliary personnel and/or new technology to increase productivity. It is suggested that the tables concerning geographic region, location, and prescription activity also be reviewed, since these factors appear to influence employed pharmacist hours and hours open. Pharmacies with sales volume between $400,000 and $750,000 employed, on average, one-half to one full-time staff professional.

The average prescription charge increased 10.1% during 1986, to $14.36—up $1.32 from the 1985 figure. This statistic has been increasing in recent years, and the uptrend is occasionally cited as evidence that pharmaceutical prices are increasing. However, such a conclusion cannot be drawn from the data, since the average prescription charge includes other variables besides price—particularly the number of doses dispensed per prescription.

Total Sales $250,000 to $300,000 (78 Pharmacies)	Total Sales $300,000 to $350,000 (91 Pharmacies)	Total Sales $350,000 to $400,000 (99 Pharmacies)	Total Sales $400,000 to $450,000 (94 Pharmacies)
$211,648— 76.6%	$246,342— 75.3%	$287,465— 77.1%	$312,486— 73.5%
64,634— 23.4%	80,851— 24.7%	85,277— 22.9%	112,451— 26.5%
$276,282—100.0%	$327,193—100.0%	$372,742—100.0%	$424,937—100.0%
185,023— 67.0%	214,992— 65.7%	250,465— 67.2%	289,748— 68.2%
$ 91,259— 33.0%	$112,201— 34.3%	$122,277— 32.8%	$135,189— 31.8%
$ 26,258— 9.5%	$ 29,812— 9.1%	$ 31,392— 8.4%	$ 32,669— 7.7%
17,039— 6.2%	24,443— 7.5%	27,791— 7.5%	33,994— 8.0%
8,556— 3.1%	8,975— 2.7%	8,914— 2.4%	11,114— 2.6%
30,094— 10.9%	39,427— 12.1%	42,061— 11.2%	45,894— 10.8%
$ 81,947— 29.7%	$102,657— 31.4%	$110,158— 29.5%	$123,671— 29.1%
$ 9,312— 3.3%	$ 9,544— 2.9%	$ 12,119— 3.3%	$ 11,518— 2.7%
26,258— 9.5%	29,812— 9.1%	31,392— 8.4%	32,669— 7.7%
$ 35,570— 12.8%	$ 39,356— 12.0%	$ 43,511— 11.7%	$ 44,187— 10.4%
$ 26,404— 12.5%	$ 29,808— 12.1%	$ 32,263— 11.2%	$ 34,757— 11.1%
17,654— 27.3%	26,377— 32.6%	21,246— 24.9%	31,673— 28.2%
$ 44,058— 15.9%	$ 56,185— 17.2%	$ 53,509— 14.4%	$ 66,430— 15.6%
4.2 times	3.9 times	4.7 times	4.5 times
sq. ft. 1,925 $143.24	sq. ft. 1,812 $180.60	sq. ft. 1,824 $204.38	sq. ft. 2,437 $174.44
$4.44	$4.95	$4.88	$4.56
8,059— 54.7%	8,586— 52.0%	11,401— 55.8%	12,559— 55.4%
6,666— 45.3%	7,918— 48.0%	9,014— 44.2%	10,105— 44.6%
14,725—100.0%	16,504—100.0%	20,415—100.0%	22,664—100.0%
$14.37	$14.93	$14.08	$13.79
52 hours	55 hours	56 hours	58 hours
49 hours	50 hours	48 hours	48 hours
17 hours	16 hours	15 hours	21 hours

Data which describe prescription activity provide output figures useful for comparison. As expected, prescriptions dispensed per pharmacy hour open increase steadily as sales volume rises—from about 4 in the lowest sales group to over 16 in the highest. Prescriptions dispensed per pharmacist hour worked also tend to rise as sales increase but at a slower rate (from close to 4 in the smaller-volume operations to over 9 in the largest stores). Interestingly, the figures for prescriptions dispensed per pharmacy hour open and prescriptions filled per pharmacist hour worked are quite similar until total sales reach the $500,000 mark. In pharmacies with sales in excess of $500,000 the prescriptions dispensed per hour open ratio trends rapidly upward from about 9 to over 16 as sales increase. The prescriptions dis-

Table 3 *Summary of sales volume in 1986 (continued)*

Averages per Pharmacy	Total Sales $450,000 to $500,000 (104 Pharmacies)	Total Sales $500,000 to $600,000 (143 Pharmacies)
Sales		
Prescription	$343,862— 72.2%	$389,734— 71.2%
Other	132,073— 27.8%	157,879— 28.8%
Total	$475,935—100.0%	$547,613—100.0%
Cost of goods sold	314,770— 66.1%	367,327— 67.1%
Gross margin	$161,165— 33.9%	$180,286— 32.9%
Expenses		
Proprietor's or manager's salary	$ 36,835— 7.7%	$ 38,977— 7.1%
Employees' wages	41,816— 8.8%	47,926— 8.8%
Rent	10,566— 2.2%	12,911— 2.4%
Miscellaneous operating costs	58,834— 11.4%	62,259— 11.3%
Total expenses	$143,051— 30.1%	$162,073— 29.6%
Net profit (before taxes)	$ 18,114— 3.8%	$ 18,213— 3.3%
Add proprietor's withdrawals	36,835— 7.7%	38,977— 7.1%
Total income of self-employed proprietor (before taxes on income and profits)	$ 54,949— 11.5%	$ 57,190— 10.4%
Value of inventory at cost and as a percent of sales		
Prescription	$ 37,784— 11.0%	$ 40,430— 10.4%
Other	32,530— 24.6%	39,027— 24.7%
Total	$ 70,314— 14.8%	$ 79,457— 14.5%
Annual rate of turnover of inventory	4.5 times	4.7 times
Size of area and sales per square foot*	sq. ft. 2,240 $212.35	sq. ft. 2,464 $222.24
Rent per square foot*	$4.72	$5.24
Number of prescriptions dispensed		
New	12,747— 52.4%	15,338— 55.5%
Renewed	11,599— 47.6%	12,303— 44.5%
Total	24,346—100.0%	27,641—100.0%
Prescription charge	$14.12	$14.10
Number of hours per week		
Pharmacy was open	60 hours	60 hours
Worked by proprietor	51 hours	46 hours
Worked by employed pharmacist(s)	26 hours	30 hours

*Based on averages of pharmacies that reported all data

pensed per pharmacist hour worked ratio also increases, but in the narrow range of 8 to 9, as total sales rise beyond $500,000 in the average pharmacy.

LILLY DIGEST data reveal that among the larger-sales-volume pharmacies, about 90% of floor area is allocated to general merchandise selling space; the remaining footage is occupied by the prescription department. These operations typically occupy at least twice the space of the average DIGEST pharmacy, and their non-prescription merchandise inventory represents over five times the stock investment. Total inventory per square foot averages close to $35 in these larger stores; however, it can increase to over $40 in the largest pharmacy operations. It is noteworthy that sales per square foot in these larger-sales-volume stores are the highest.

Total Sales $600,000 to $750,000 (139 Pharmacies)	Total Sales $750,000 to $1,000,000 (158 Pharmacies)	Total Sales $1,000,000 to $1,500,000 (137 Pharmacies)	Total Sales over $1,500,000 (69 Pharmacies)
$467,775— 70.1%	$550,773— 64.4%	$ 708,110— 58.4%	$ 932,934— 46.3%
199,506— 29.9%	304,641— 35.6%	503,807— 41.6%	1,083,875— 53.7%
$667,281—100.0%	$855,414—100.0%	$1,211,917—100.0%	$2,016,809—100.0%
449,852— 67.4%	581,718— 68.0%	835,714— 69.0%	1,388,413— 68.8%
$217,429— 32.6%	$273,696— 32.0%	$ 376,203— 31.0%	$ 628,396— 31.2%
$ 41,899— 6.3%	$ 45,792— 5.4%	$ 55,376— 4.6%	$ 58,629— 2.9%
66,057— 9.9%	91,506— 10.7%	130,177— 10.7%	251,152— 12.5%
13,880— 2.1%	20,784— 2.4%	25,943— 2.1%	44,218— 2.2%
75,782— 11.4%	93,926— 11.0%	137,031— 11.3%	224,659— 11.1%
$197,618— 29.7%	$252,008— 29.5%	$ 348,527— 28.7%	$ 578,658— 28.7%
$ 19,811— 2.9%	$ 21,688— 2.5%	$ 27,676— 2.3%	$ 49,738— 2.5%
41,899— 6.3%	45,792— 5.4%	55,376— 4.6%	58,629— 2.9%
$ 61,710— 9.2%	$ 67,480— 7.9%	$ 83,052— 6.9%	$ 108,367— 5.4%
$ 47,141— 10.1%	$ 53,477— 9.7%	$ 63,798— 9.0%	$ 94,255— 10.1%
45,854— 23.0%	61,997— 20.4%	99,807— 19.8%	190,319— 17.6%
$ 92,995— 13.9%	$115,474— 13.5%	$ 163,605— 13.5%	$ 284,574— 14.1%
4.9 times	5.1 times	5.2 times	5.0 times
sq. ft. 2,715 $245.85	sq. ft. 3,304 $258.73	sq. ft. 4,736 $255.12	sq. ft. 7,055 $279.40
$5.11	$6.29	$5.48	$6.27
17,238— 54.6%	21,287— 55.3%	26,644— 55.0%	37,905— 58.4%
14,347— 45.4%	17,234— 44.7%	21,800— 45.0%	27,056— 41.6%
31,585—100.0%	38,521—100.0%	48,444—100.0%	64,961—100.0%
$14.81	$14.30	$14.62	$14.36
64 hours	66 hours	70 hours	77 hours
48 hours	47 hours	50 hours	53 hours
39 hours	52 hours	69 hours	94 hours

Prescription Activity

LILLY DIGEST data show that prescription department sales have grown steadily over the past two decades. This area's contribution to sales has risen from 41.8% during 1967 to 63.9% for 1986. For the ninth time in the last ten years, the professional area has provided more than half of the revenue income in the average independent community pharmacy. This suggests that the economic welfare of the typical operation is closely aligned with a "healthy" prescription department.

Table 4 presents operating statistics according to daily prescription activity. As expected, when the number of prescriptions dispensed daily increases, total sales volume also advances. Interestingly, gross margin tends to decline percentagewise; however, total expenses fall at an even faster rate, with the result that net profit before taxes tends to rise.

An increase in prescription activity requires additional professionals to handle the greater workload and is reflected in the upward trend in employed pharmacist hours worked per week. This need for additional professional personnel also influences employees' wage expense, which increases as the number of prescriptions dispensed advances.

As more prescriptions are dispensed, inventory investment tends to decline as a percent of sales. Also noteworthy is the relatively steady improvement in the inventory turnover rate as prescription activity increases (from 3.2 to 5.6 times). Dollarwise, prescription inventory increases as prescription business grows.

Table 4 *Summary by number of prescriptions dispensed daily in 1986*

Averages per Pharmacy	Under 25 Prescriptions Daily (76 Pharmacies)	25 to 35 Prescriptions Daily (98 Pharmacies)	35 to 50 Prescriptions Daily (189 Pharmacies)
Sales			
Prescription	$101,694— 52.5%	$149,975— 55.1%	$239,454— 63.2%
Other	92,009— 47.5%	122,137— 44.9%	139,645— 36.8%
Total	$193,703—100.0%	$272,112—100.0%	$379,099—100.0%
Cost of goods sold	129,393— 66.8%	178,777— 65.7%	253,741— 66.9%
Gross margin	$ 64,310— 33.2%	$ 93,335— 34.3%	$125,358— 33.1%
Expenses			
Proprietor's or manager's salary	$ 19,757— 10.2%	$ 24,490— 9.0%	$ 28,747— 7.6%
Employees' wages	14,334— 7.4%	19,864— 7.3%	32,063— 8.5%
Rent	6,779— 3.5%	8,980— 3.3%	10,307— 2.7%
Miscellaneous operating costs	21,888— 11.3%	32,381— 11.9%	44,182— 11.7%
Total expenses	$ 62,758— 32.4%	$ 85,715— 31.5%	$115,299— 30.5%
Net profit (before taxes)	$ 1,552— 0.8%	$ 7,620— 2.8%	$ 10,059— 2.6%
Add proprietor's withdrawals	19,757— 10.2%	24,490— 9.0%	28,747— 7.6%
Total income of self-employed proprietor (before taxes on income and profits)	$ 21,309— 11.0%	$ 32,110— 11.8%	$ 38,806— 10.2%
Value of inventory at cost and as a percent of sales			
Prescription	$ 17,186— 16.9%	$ 20,696— 13.8%	$ 28,433— 11.9%
Other	22,542— 24.5%	30,412— 24.9%	33,579— 24.0%
Total	$ 39,728— 20.5%	$ 51,108— 18.7%	$ 62,012— 16.4%
Annual rate of turnover of inventory	3.3 times	3.5 times	4.2 times
	sq. ft.	sq. ft.	sq. ft.
Size of area and sales per square foot*	1,652 $117.25	1,953 $139.33	2,225 $174.99
Rent per square foot*	$4.10	$4.60	$4.63
Number of prescriptions dispensed			
New	3,977— 62.5%	5,542— 55.4%	8,526— 54.6%
Renewed	2,387— 37.5%	4,462— 41.6%	7,096— 45.4%
Total	6,364—100.0%	10,004—100.0%	15,622—100.0%
Prescription charge	$15.98	$14.99	$15.33
Number of hours per week			
Pharmacy was open	52 hours	54 hours	56 hours
Worked by proprietor	47 hours	49 hours	48 hours
Worked by employed pharmacist(s)	10 hours	14 hours	21 hours

*Based on averages of pharmacies that reported all data

It should be mentioned that the sales productivity of this inventory also increases as daily prescription activity rises—from $5.92 in the smallest sales group to $11.13 in the largest. As expected, when prescription business increases, there is a corresponding increase in floor area and dollar rental charge. As a result, total sales as well as rent per square foot tend to rise steadily.

The ratio of prescriptions per employed pharmacist hour is generally low in pharmacies that dispense few prescriptions. This is probably due to the legal requirement in most states that a pharmacist be present whenever the business is open, even though prescription activity may not totally warrant it. As total sales volume and daily prescription activity increase, proprietors may find that more of their time is spent on nonprescription tasks, with the result that additional professional staff are needed. These factors considered, it appears that pharmacists' prescription output increases as volume expands. Assuming that 75% of the proprietor's time was devoted to the prescription department, it can be calculated that, on average, 7.8 prescriptions per pharmacist hour were dispensed in the typical LILLY DIGEST pharmacy during 1986. This statistic was up from the 7.5 prescriptions per pharmacist hour reported for 1985. In stores with the highest daily prescription activity, output was about 12 prescriptions per pharmacist hour. Pharmacy technicians and/or newer technology was probably used in reaching this level of productivity.

50 to 60 Prescriptions Daily (131 Pharmacies)	60 to 75 Prescriptions Daily (182 Pharmacies)	75 to 100 Prescriptions Daily (242 Pharmacies)	100 to 150 Prescriptions Daily (219 Pharmacies)	Over 150 Prescriptions Daily (108 Pharmacies)
$296,488— 66.8%	$354,228— 61.8%	$445,044— 65.1%	$602,095— 63.7%	$ 977,551— 65.1%
147,242— 33.2%	218,501— 38.2%	238,777— 34.9%	343,328— 36.3%	523,723— 34.9%
$443,730—100.0%	$572,729—100.0%	$683,821—100.0%	$945,423—100.0%	$1,501,274—100.0%
297,943— 67.1%	388,218— 67.8%	464,546— 67.9%	645,936— 68.3%	1,025,101— 68.3%
$145,787— 32.9%	$184,511— 32.2%	$219,275— 32.1%	$299,487— 31.7%	$ 476,173— 31.7%
$ 36,713— 8.3%	$ 34,914— 6.1%	$ 43,724— 6.4%	$ 46,733— 4.9%	$ 59,166— 4.0%
38,714— 8.7%	53,206— 9.3%	65,740— 9.6%	101,261— 10.7%	174,280— 11.6%
11,214— 2.5%	15,003— 2.6%	16,022— 2.3%	20,632— 2.2%	27,281— 1.8%
51,712— 11.7%	65,522— 11.4%	75,325— 11.1%	102,217— 10.9%	171,576— 11.4%
$138,353— 31.2%	$168,645— 29.4%	$200,811— 29.4%	$270,843— 28.7%	$ 432,303— 28.8%
$ 7,434— 1.6%	$ 15,866— 2.8%	$ 18,464— 2.7%	$ 28,644— 3.0%	$ 43,870— 2.9%
36,713— 8.3%	34,914— 6.1%	43,724— 6.4%	46,733— 4.9%	59,166— 4.0%
$ 44,147— 9.9%	$ 50,780— 8.9%	$ 62,188— 9.1%	$ 75,377— 7.9%	$ 103,036— 6.9%
$ 35,347— 11.9%	$ 38,252— 10.8%	$ 45,164— 10.1%	$ 57,358— 9.5%	$ 87,843— 9.0%
38,698— 26.3%	48,135— 22.0%	50,274— 21.1%	70,190— 20.5%	95,273— 18.2%
$ 74,045— 16.7%	$ 86,387— 15.1%	$ 95,438— 14.0%	$127,548— 13.5%	$ 183,116— 12.2%
4.1 times	4.6 times	4.9 times	5.1 times	5.6 times
sq. ft. 2,439 $189.13	sq. ft. 2,690 $218.90	sq. ft. 3,055 $227.59	sq. ft. 3,439 $274.91	sq. ft. 4,368 $343.69
$4.60	$5.58	$5.24	$6.00	$6.25
10,781— 54.8%	13,493— 55.5%	17,156— 55.2%	23,723— 55.3%	39,646— 54.9%
8,386— 45.2%	10,821— 44.5%	13,918— 44.8%	19,151— 44.7%	32,526— 45.1%
19,667—100.0%	24,314—100.0%	31,074—100.0%	42,874—100.0%	72,172—100.0%
$15.08	$14.57	$14.32	$14.04	$13.54
58 hours	62 hours	63 hours	66 hours	68 hours
49 hours	49 hours	47 hours	49 hours	49 hours
24 hours	29 hours	37 hours	54 hours	82 hours

Balance Sheet and Financial Ratio Trends

Sound financial management practice suggests that the pharmacist owner/manager review both the income and expense statement for an evaluation of day-to-day operations and the balance sheet for an assessment of capital position. Pharmacy owners should review the balance sheet as an investor would, relating income to the permanent funds invested and evaluating the overall liquidity and solvency of the business. The owner-investor can determine how effectively assets are being utilized by relating the asset and liability position to sales and profit figures. Financial ratios developed from balance sheet data can be used to measure the liquidity of the business, or its ability to meet current obligations; the profitability of the operation, or management's effective use of equity; and the overall solvency of the firm, or its ability to finance capitalization.

Liquidity or Short-Term Capitalization—measures the pharmacy's ability to meet its current financial obligations. It also reflects the relationship between the firm's short-term financial obligations (current liabilities) and the source of monies to meet these requirements (current assets).

$$\text{CURRENT RATIO} = \frac{\begin{array}{c}\text{Current Assets}\\ \text{(Cash, notes, accounts receivable, and inventory)}\end{array}}{\begin{array}{c}\text{Current Liabilities}\\ \text{(Accounts and notes payable, due within one year)}\end{array}}$$

Many observers suggest that a current ratio of 2 to 1 is reasonable and 3 to 1 is very sound. This value would allow current assets to shrink substantially (as might happen with inventory) and still cover current obligations. The current ratio is also an indicator of the margin of safety that management maintains in order to allow for fluctuations in the flow of funds within the business during the year. Creditors are favorable to a high current ratio, since it suggests a wide margin of safety for any claims against the business. However, an extremely high ratio may indicate management is not using funds in the most productive way. Asset investment may be higher than necessary and, therefore, not generating a sufficient return. The current ratio for the average LILLY DIGEST pharmacy for 1986 was 3.3 to 1.

Profitability—measures how effective management has been in increasing owner's equity.

$$\text{RETURN ON INVESTMENT} = \frac{\begin{array}{c}\text{Net Profit}\\ \text{(Gross margin} - \text{total expenses)}\end{array}}{\begin{array}{c}\text{Net Worth}\\ \text{(Total assets} - \text{total liabilities)}\end{array}}$$

The return-on-investment or return-on-equity calculation is considered the broadest measure of overall performance, since it indicates how well funds, as supplied by the owners, are being utilized.

Solvency or Long-Term Capitalization—is calculated by lenders in estimating the borrowing potential of a business and refers to the ability of a firm to meet the repayment schedule on long-term obligations.

$$\text{DEBT/EQUITY RATIO} = \frac{\text{Total Liabilities}}{\text{Net Worth}}$$

A pharmacy in which the total debt exceeds the owner's equity is quite vulnerable to major changes in the firm's operation. Such changes may be the result of a sudden or prolonged decline in sales or an increase in expenses. When the debt/equity ratio is low in comparison with that of similar operations, the pharmacy may not be leveraged to the best advantage.

$$\text{NET SALES TO NET WORTH} = \frac{\text{Net Sales}}{\text{Net Worth}}$$

This ratio examines the productivity of equity in terms of supporting sales. A higher ratio may imply inadequate owner's capitalization, or a highly leveraged firm. When the ratio is low, the operation is not realizing full use of its funds, and the owner's investment has become stagnant.

The balance sheet and financial ratios in Tables 5 and 6 are divided into two sales-volume categories—under and over $400,000. Pharmacies within these groups are also separated according to age. The primary column for comparison in each category is the one which expresses each component as a percent of sales. These tables show that when a pharmacy has been in operation for longer than five years, fixed assets decline both in dollars and as a percent of sales. This is to be expected, since sales are increasing rapidly, with the result that fixed assets represent a lower share of revenue. Current liabilities also decrease dollarwise and percentagewise as stores mature. The major factor affecting this reduction is the decline in short-term debt. As businesses age, they appear to be better able to retire short-term notes and thereby reduce current liabilities.

The figures in Tables 5 and 6 indicate that, as pharmacies age, long-term liabilities decrease both as a percent of sales and as a percent of the combined total liabilities and net worth. This is expected, since, as the business matures, it generates funds adequate to retire debt and build up net worth. In other words, financing shifts from debt to equity. Confirmation of this shift is seen in the net sales to net worth ratio, since it declines substantially as a store ages. The total debt to net worth ratio indicates a similar trend.

Table 5 *Balance sheet and financial ratios by pharmacy age as of December 31, 1986—sales under $400,000*

Averages per Pharmacy	Pharmacy Age under 5 Years (114 Pharmacies)	Percent of Sales	Pharmacy Age over 5 Years (215 Pharmacies)	Percent of Sales
Assets				
Current assets				
Cash	$ 8,935	3.3%	$ 10,357	3.6%
Accounts receivable	8,667	3.2%	11,422	3.9%
Inventory	42,982	15.7%	48,477	16.7%
Total current assets	$ 60,584	22.2%	$ 70,256	24.2%
Fixed assets				
Fixtures and equipment and leasehold improvements (net after reserve for depreciation)	14,608	5.4%	11,041	3.8%
Other assets				
Prepaid expenses, deposits, etc.	5,974	2.2%	6,593	2.2%
Total assets*	$ 81,166	29.8%	$ 87,890	30.2%
Liabilities				
Current and accrued liabilities				
Accounts payable	$ 11,347	4.2%	$ 11,073	3.8%
Notes payable (within one year)	7,353	2.7%	4,323	1.5%
Accrued expenses and other liabilities	3,029	1.1%	2,561	0.9%
Total current and accrued liabilities	$ 21,729	8.0%	$ 17,957	6.2%
Long-term liabilities				
Notes payable (later than one year)	28,297	10.4%	15,751	5.4%
Total liabilities	$ 50,026	18.4%	$ 33,708	11.6%
Net Worth	31,140	11.4%	54,182	18.6%
Total liabilities and net worth*	$ 81,166	29.8%	$ 87,890	30.2%
Net working capital	$ 38,864	14.3%	$ 52,299	18.0%
Sales	$272,328	100.0%	$290,169	100.0%
Purchases	$181,992	66.8%	$192,888	66.5%
Net profit (before taxes)	$ 10,965	4.0%	$ 8,399	2.9%
Financial Ratios				
Current assets to current liabilities	2.8 times		3.9 times	
Net sales to net worth	8.7 times		5.4 times	
Net profit (before taxes) on net worth	35.2%		15.5%	
Total debt to net worth	160.6%		62.2%	

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

Financial ratio data, especially the current ratio, indicate that older operations appear to be in a better position to meet current financial obligations. Net working capital, too, increases in both dollars and as a percent of sales for this mature group. It should be noted that the net sales to net worth ratio suggests that younger pharmacies are highly leveraged when compared with their more established counterparts. LILLY DIGEST data also reveal that as newer businesses approach two years of age, there should be evidence of a shift in financing from debt to equity. If this is not apparent, management should examine market conditions with the thought of possible relocation of the business.

As pharmacies age, they accumulate net worth. As a result, these businesses improve their ability to borrow funds for future capital expansion or remodeling.

Table 6 *Balance sheet and financial ratios by pharmacy age as of December 31, 1986—sales over $400,000*

Averages per Pharmacy	Pharmacy Age under 5 Years (101 Pharmacies)	Percent of Sales	Pharmacy Age over 5 Years (443 Pharmacies)	Percent of Sales
Assets				
Current assets				
Cash	$ 18,773	3.2%	$ 26,757	4.2%
Accounts receivable	22,095	3.8%	26,062	4.1%
Inventory	86,211	14.8%	88,141	13.9%
Total current assets	$127,079	21.8%	$140,960	22.2%
Fixed assets				
Fixtures and equipment and leasehold improvements (net after reserve for depreciation)	26,040	4.5%	21,330	3.4%
Other assets				
Prepaid expenses, deposits, etc.	18,006	3.1%	10,633	1.7%
Total assets*	$171,125	29.4%	$172,923	27.3%
Liabilities				
Current and accrued liabilities				
Accounts payable	$ 26,143	4.5%	$ 26,031	4.1%
Notes payable (within one year)	12,442	2.1%	7,865	1.3%
Accrued expenses and other liabilities	6,714	1.2%	7,784	1.2%
Total current and accrued liabilities	$ 45,299	7.8%	$ 41,680	6.6%
Long-term liabilities				
Notes payable (later than one year)	58,474	10.1%	23,436	3.7%
Total liabilities	$103,773	17.9%	$ 65,116	10.3%
Net Worth	67,352	11.5%	107,807	17.0%
Total liabilities and net worth*	$171,125	29.4%	$172,923	27.3%
Net working capital	$ 81,779	14.1%	$ 99,280	15.7%
Sales	$581,143	100.0%	$632,746	100.0%
Purchases	$399,986	68.8%	$429,461	67.9%
Net profit (before taxes)	$ 20,591	3.6%	$ 19,679	3.1%
Financial Ratios				
Current assets to current liabilities	2.8 times		3.4 times	
Net sales to net worth	8.6 times		5.9 times	
Net profit (before taxes) on net worth	30.6%		18.3%	
Total debt to net worth	154.1%		60.4%	

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

Net Profit

The pharmacist/entrepreneur faces financial risk when opening a retail pharmacy business. In a free-enterprise economy the entrepreneur who accurately calculates the risk and successfully meets operational challenges can benefit in economic terms. Management is usually credited for the success or failure of the business. Numerous pharmacy operations close or change ownership each year—a reminder that the threat of bankruptcy still exists. Profits are the "report card" of how well management has handled the risks of business operation. They also are the reward for efficient and effective use of capital as supplied by the owner. It is monetary profit, then, that encourages the pharmacist/entrepreneur to continue operation of a retail pharmacy business.

The figures in Table 7 show that 15% of all LILLY DIGEST respondents operated at a loss during 1986—down from 16% recorded the previous year. In addition, 23% of pharmacies submitting figures reported a net profit of less than 2% (up from 22% for 1985). It should be noted that 11% of participants posted a net profit of 10% or more, up 1% from the 1985 figure. Overall, the data in Table 7 suggest that there was a slight improvement in net profit among stores reporting a positive net profit position for 1986, when compared with statistics for the previous year.

Turnover Comparison

Table 8 depicts selected operating figures from a group of pharmacies with a high inventory turnover rate and another group with a low rate. Comparison indicates a positive relationship between turnover rate and total income. Community pharmacies in the high turnover group, on average, had smaller inventories as a percent of sales. These stores also reported a higher cost of goods sold and, therefore, a lower gross margin than the slow turnover group. However, total expenses were substantially less, with the result that these businesses had a higher total income. The more favorable expense figure may result, in part, from economies in both procurement and carrying costs of inventory.

Break-Even Point

The calculated break-even point for the 1,245 pharmacies submitting figures to the LILLY DIGEST was reached in 10.2 months, when 84.8% of total sales had been attained. At the break-even point, all fixed costs of operation for the year are covered as are the variable costs up to that time. All pharmacy costs are considered fixed except employees' wages, advertising, bad debts, and miscellaneous expenses. Beyond the break-even point, sales are reduced only by the variable costs incurred thereafter. The remainder is net profit. The break-even points for selected years are shown in terms of both time and sales.

Break-Even Point

	Months	Percent of Sales
1986	10.2	84.8%
1981	10.0	83.3%
1976	9.8	81.8%
1971	9.7	80.8%

Table 8 *Turnover comparison (percent of sales)*

	Fast Turnover (205 Pharmacies)	Slow Turnover (253 Pharmacies)
Total sales	100.0%	100.0%
Cost of goods sold	68.2%	65.9%
Gross margin	31.8%	34.1%
Employees' wages	8.7%	11.0%
Rent and miscellaneous expenses	13.1%	15.4%
Total expenses (less proprietor's salary)	21.8%	26.4%
Total income (proprietor's salary plus net profit)	10.0%	7.6%
Total inventory	7.4%	21.3%
Inventory turnover	9.2 times	3.1 times

Table 7 *Net profit according to sales size*

	Under $200,000	$200,000-$250,000	$250,000-$300,000	$300,000-$350,000	$350,000-$400,000	$400,000-$450,000	$450,000-$500,000	$500,000-$600,000	$600,000-$750,000	$750,000-$1,000,000	Over $1,000,000	This Year	Last Year
Number of Pharmacies	73	60	78	91	99	94	104	143	139	158	206	1,245	1,378
Net Profit as a Percent of Sales													
Operating at a loss	35%	18%	23%	16%	14%	18%	17%	11%	11%	10%	14%	15%	16%
Less than 2%	24	15	17	25	22	19	14	22	27	25	28	23	22
2% to 5%	16	35	24	26	27	29	27	36	33	39	30	30	30
5% to 7.5%	4	6	14	14	17	22	15	11	11	12	16	13	15
7.5% to 10%	3	15	8	7	11	8	9	9	9	6	4	8	7
10% and over	18	11	14	12	9	4	18	11	9	8	8	11	10

Rent

During 1986, rental expense for the average independent community pharmacy reporting to the LILLY DIGEST rose 7.8% in dollars but fell slightly to 2.3% of sales. This was the lowest rent percentage since 1960. Over the past decade, rental expenditure as a percent of sales has fluctuated within a very narrow range. The long-term nature of rental agreements probably accounts for the overall consistency of the rate over time. Rent, as well as other expenses, should be kept in line with sales volume if an adequate net profit is to be realized. A fair and equitable rental expenditure should be based on realistic sales and profit projections. Leases for community pharmacies usually specify payment in terms of percent of sales, dollar figures per square foot occupied, total monthly or yearly dollar rates, or some combination of these.

Table 9 shows rental expense as a percent of sales according to sales volume. The distribution of this expense has not changed significantly from that reported for 1985. The majority of pharmacies—58.6% (up from 57.1% for 1985) paid 2.5% of sales or less for rent. A total of 1,005, or almost 81%, spent less than 3.5% of sales on rental expense.

Table 10 permits the examination of rent from several perspectives. Pharmacy managers should review the entire table in order to acquire an overall awareness of the influence of these variables on rental expense. Section A correlates rent with sales volume. Rent tends to decline percentagewise as sales increase. Larger-volume operations pay more for rent, but each square foot of space is more productive.

Section B illustrates the effect of store location on rental charge. The highest-sales-volume units are located in shopping centers. These stores also record the largest floor area and highest rental expense in dollars. However, pharmacies located in medical office buildings reported the most productive floor area, and rent per square foot was the highest. Operations in these locations also posted the largest rental expense as a percent of sales. Neighborhood pharmacies had the lowest sales and rent per square foot figures of any location during 1986.

Section C reveals that as daily prescription activity increases, there is a corresponding increase in sales volume, and rent tends to decline percentagewise. It should be noted that section A statistics closely parallel these data.

Section D shows the influence of store age on rent. Sales volume grows as a pharmacy matures, with the result that rent expense declines as a percent of sales. As stores age, they generate more sales per square foot of space. As expected, younger businesses tend to have the lowest sales volume and pay the highest rent percentagewise.

Section E summarizes expenditures for rent according to geographic region. The Middle Atlantic States reported the highest sales per square foot of floor area and the lowest rental percentage. Pharmacies in the Pacific States again paid the most rent per square foot of space, whereas stores in the Mountain Region paid the least and also posted the smallest sales per square foot figure. The typical LILLY DIGEST pharmacy paid about $5.40 per square foot of selling space for rent in 1986—over $15,000 for the year.

Table 9 *Rental percentages by sales size*

	Under $200,000	$200,000-$250,000	$250,000-$300,000	$300,000-$350,000	$350,000-$400,000	$400,000-$450,000	$450,000-$500,000	$500,000-$600,000	$600,000-$750,000	$750,000-$1,000,000	Over $1,000,000	Total	Percent of Pharmacies
Number of Pharmacies	73	60	78	91	99	94	104	143	139	158	206	1,245	100.0%
Rent as a Percent of Sales													
Less than 1.5%	10	12	13	17	32	24	33	44	41	41	59	326	26.2%
1.5% to 2.5%	18	11	16	35	22	31	33	47	61	47	82	403	32.4%
2.5% to 3.5%	12	17	25	19	23	23	21	30	23	39	44	276	22.2%
3.5% to 4.5%	17	10	11	5	10	5	9	8	7	18	11	111	8.9%
4.5% to 5.5%	4	4	7	6	11	4	4	5	5	7	3	60	
5.5% to 6.5%	3	2	3	4	—	3	3	5	—	4	4	31	
6.5% to 7.5%	1	1	—	1	1	—	1	3	1	2	2	13	
7.5% to 8.5%	2	1	—	4	—	1	—	—	—	—	1	9	
8.5% to 9.5%	1	1	1	—	—	1	—	—	—	—	—	4	10.3%
9.5% to 10.5%	1	1	—	—	—	1	—	—	1	—	—	4	
10.5% to 11.5%	—	—	1	—	—	1	—	—	—	—	—	2	
11.5% to 12.5%	—	—	1	—	—	—	—	1	—	—	—	2	
12.5% and over	4	—	—	—	—	—	—	—	—	—	—	4	

Table 10 *Rent correlated with various factors*

	Average Sales	Size of Pharmacy (Sq. Ft.)*	Sales per Square Foot	Average Rent	Rent per Square Foot	Rent Percentage
A Annual Sales						
Under $200,000	$ 150,229	1,049	$143.21	$ 5,570	$5.31	3.7%
$200,000 to $250,000	228,016	1,680	135.91	7,069	4.20	3.1%
$250,000 to $300,000	276,282	1,925	143.24	8,556	4.44	3.1%
$300,000 to $350,000	327,193	1,812	180.60	8,975	4.95	2.7%
$350,000 to $400,000	372,742	1,824	204.38	8,914	4.88	2.4%
$400,000 to $450,000	424,937	2,437	174.44	11,114	4.56	2.6%
$450,000 to $500,000	475,935	2,240	212.35	10,566	4.72	2.2%
$500,000 to $600,000	547,613	2,464	222.24	12,911	5.24	2.4%
$600,000 to $750,000	667,281	2,715	245.85	13,880	5.11	2.1%
$750,000 to $1,000,000	855,414	3,304	258.73	20,784	6.29	2.4%
$1,000,000 to $1,500,000	1,211,917	4,736	255.12	25,943	5.48	2.1%
Over $1,500,000	2,016,809	7,055	279.40	44,218	6.27	2.2%
B Location						
Downtown	$ 683,061	2,854	$244.88	$14,406	$5.05	2.1%
Neighborhood	614,013	2,901	216.00	12,534	4.32	2.0%
Shopping Center	833,975	3,717	231.60	23,335	6.28	2.8%
Medical Office Building	485,213	1,378	360.17	14,311	10.39	2.9%
C Number of Prescriptions Dispensed Daily						
Under 25	$ 193,703	1,652	$117.25	$ 6,779	$4.10	3.5%
25 to 35	272,112	1,953	139.33	8,980	4.60	3.3%
35 to 50	379,099	2,225	174.99	10,307	4.63	2.7%
50 to 60	443,730	2,439	189.13	11,214	4.60	2.5%
60 to 75	572,729	2,690	218.90	15,003	5.58	2.6%
75 to 100	683,821	3,055	227.59	16,022	5.24	2.3%
100 to 150	945,423	3,439	274.91	20,632	6.00	2.2%
Over 150	1,501,274	4,368	343.69	27,281	6.25	1.8%
D Number of Years Pharmacy Has Been in Operation						
Less than 2 years	$ 379,858	2,653	$143.21	$11,589	$4.37	3.1%
2 to 5 years	535,499	2,427	220.63	13,931	5.74	2.6%
5 to 10 years	537,996	2,382	225.86	13,268	5.57	2.5%
Over 10 years	764,878	3,166	241.60	16,732	5.29	2.2%
E Geographic Region						
New England States	$ 778,035	3,194	$239.56	$19,788	$6.20	2.5%
Middle Atlantic States	767,766	2,303	324.53	13,943	6.05	1.8%
East North Central States	761,169	3,111	241.14	17,356	5.58	2.3%
West North Central States	525,291	2,527	205.89	11,941	4.73	2.3%
South Atlantic States	578,685	2,552	227.56	12,142	4.76	2.1%
East South Central States	575,915	2,552	214.15	11,824	4.63	2.1%
West South Central States	594,930	2,837	210.90	13,732	4.84	2.3%
Mountain States	649,340	4,354	151.19	18,191	4.18	2.8%
Pacific States	640,314	2,680	239.79	20,363	7.60	3.2%
LILLY DIGEST Average	653,593	2,808	229.57	15,266	5.44	2.3%

*Based on averages of pharmacies that reported all data

Geographic Summary

The operating statistics of independent community pharmacies located in nine geographic regions are presented in Table 11. As might be expected, various factors differ with geography, such as the cost of living and population density. These and other elements can impact pharmacy operations in terms of both sales and expenses. Analysis should include geographic location in order to account for all of these varying conditions.

Consistent with the trend of recent years, the Pacific States reported the highest average prescription charge. During 1986, pharmacies in the Pacific Region also posted the highest gross margin, total wage package, rent, and total expense percentage figures of any region. The East South Central States recorded the lowest average prescription charge and the highest ratio of prescription revenue to total sales. In the Middle Atlantic States, the average prescription volume was the largest, whereas inventory and rent as percentages of sales were the lowest.

Rent ranged from a high of 3.2% of sales in the Pacific Region to a low of 1.8% in the Middle Atlantic States. Pharmacies in the New England States were

Table 11 *Summary by geographic regions in 1986*

Geographic Region	Total Sales ($000)	Ratio of Prescription Sales to Total Sales	Gross Margin	Total Wage Package	Rent
New England States (CT, ME, MA, NH, RI, VT)	$778.0	56.1%	32.9%	16.2%	2.5%
Middle Atlantic States (NJ, NY, PA)	$767.8	68.6%	31.1%	15.0%	1.8%
East North Central States (IL, IN, MI, OH, WI)	$761.2	61.0%	30.7%	15.7%	2.3%
West North Central States (IA, KS, MN, MO, NE, ND, SD)	$525.3	63.5%	32.3%	15.8%	2.3%
South Atlantic States (DE, DC, FL, GA, MD, NC, SC, VA, WV)	$578.7	69.3%	32.8%	16.4%	2.1%
East South Central States (AL, KY, MS, TN)	$575.9	69.9%	33.3%	16.5%	2.1%
West South Central States (AR, LA, OK, TX)	$594.9	69.1%	32.2%	15.1%	2.3%
Mountain States (AZ, CO, ID, MT, NV, NM, UT, WY)	$649.3	47.9%	31.0%	14.8%	2.8%
Pacific States (AK, CA, HI, OR, WA)	$640.3	63.7%	35.2%	17.1%	3.2%
LILLY DIGEST Average	$653.6	63.9%	32.2%	15.9%	2.3%

open the longest and reported the most employed pharmacist hours worked per week. Stores in the Pacific Region were open the fewest hours.

Pharmacies in the Mountain States reported the lowest figures for the ratio of prescription income to total sales, total wage package, total expenses, and number of prescriptions dispensed of any region. They also carried the largest inventory as a percent of sales at 17.3%.

Net profit before taxes was lowest, percentagewise, in the East North Central States and highest in the East South Central Region. Gross margin was also lowest in the East North Central Region. Total sales volume was highest among pharmacies in the New England States.

The geographic summary statistics were designed to allow comparison between regions and between a given region and the U.S. average. However, it is suggested that a pharmacy manager first compare the individual unit's operating data with figures in the "self-analysis" section of the LILLY DIGEST (pages 25 to 33). The regional information may then be used to better understand variations from the usual averages and provide a more comprehensive analysis.

Total Expenses	Net Profit	Inventory at Cost	Number of Prescriptions	Average Prescription Charge	Pharmacy Hours Open per Week	Employed Pharmacist(s) Hours Worked per Week
29.9%	3.0%	13.4%	31,078	$14.04	70	44
28.3%	2.8%	11.8%	36,992	$14.24	65	41
28.6%	2.1%	14.6%	32,406	$14.33	63	43
29.3%	3.0%	16.0%	23,747	$14.05	60	36
29.4%	3.4%	14.2%	28,562	$14.05	60	35
29.7%	3.6%	13.3%	32,433	$12.41	61	28
29.2%	3.0%	15.0%	27,790	$14.78	57	27
28.2%	2.8%	17.3%	21,256	$14.63	61	37
32.9%	2.3%	14.0%	24,449	$16.68	55	29
29.5%	2.7%	14.3%	29,106	$14.36	61	36

Long-Term-Care Pharmacy Operations

Table 12 presents the averages of selected operating figures submitted by LILLY DIGEST participants who indicated that they provided pharmacy service to long-term-care facilities. Pharmacies reporting over $25,000 of nursing-home business generated more overall sales and had a lower cost of goods sold percentage than that of the total sample (Table 12). Total expenses were slightly higher, however, which resulted in a net profit percentage unchanged from that of the total sample.

The number of hours open, size of the pharmacy, and employed pharmacist hours worked were higher in the "over $25,000" group of pharmacies. Total income of the proprietor was about 10% higher in dollars among these pharmacies when compared with the total sample.

Overall, consultant pharmacist services per 100 patients averaged two hours per week to serve approximately two nursing homes at the rate of about $14 per hour. The consultant charge for 1986 was about $3 per hour higher than that recorded for 1985. It should be mentioned that the "over $25,000" pharmacies served about twice the number of patients when compared with the total sample. These pharmacies also dispensed almost 34 prescriptions per long-term-care patient per year, somewhat lower than the average of 41 prescriptions per year calculated for the total sample.

Calculating the "professional value" of the long-term-care patient provides a figure useful for comparison. Assuming that both consultation and vending of prescription services are the basic elements of the calculation, it can be derived that the value of the long-term-care patient is about $480 per year among the "over $25,000" operations. The figure for the total sample was calculated to be just over $600.

Compared with similar reports from previous years, pharmacies generating over $25,000 a year from serving long-term-care facilities are centered in neighborhood locations. They continue to grow in total sales volume and size. Their business hours have fluctuated but appear to trend slightly upward. The average prescription charge for these pharmacies has risen about 19% since 1984. The consultant charge per hour among higher-volume long-term-care pharmacies increased over 37% during the past two years.

Table 12 *Long-term-care pharmacy operations*

Averages per Pharmacy	Total Sample (271 Community Pharmacies)	Long-Term-Care Billing Over $25,000/Year (148 Pharmacies)
Prescription sales	$490,682— 67.7%	$540,651— 66.7%
Other sales	233,836— 32.3%	269,522— 33.3%
Total sales	$724,518—100.0%	$810,173—100.0%
Cost of goods sold	486,199— 67.1%	537,036— 66.3%
Gross margin	$238,319— 32.9%	$273,137— 33.7%
Total expenses	218,078— 30.1%	250,080— 30.9%
Proprietor's salary	$ 40,330— 5.6%	$ 43,913— 5.4%
Net profit (before taxes)	20,241— 2.8%	23,057— 2.8%
Total income of self-employer	$ 60,571— 8.4%	$ 66,970— 8.3%
Prescriptions dispensed per year	34,894	39,461
Pharmacy hours open per week	61	63
Manager hours per week	48	47
Employed pharmacist hours per week	49	58
Total floor area	2,862 sq. ft.	2,946 sq. ft.
Location	Neighborhood	Neighborhood
Average prescription charge	$14.06	$13.70
Facilities served	1.8	2.3
Patients served	106	178
Consultant hours per week*	2.6	4.0
Consultant hours per 100 patients per week	2	2
Consultant charge per hour*	$14.89	$13.88
Long-term-care prescriptions dispensed per year*	4,383	6,035
Consultant charge per prescription dispensed	46 cents	48 cents
Long-term-care billing for professional services	$63,638	$85,566
Sales per square foot	$253.15	$275.01

*Based on averages of pharmacies that reported all data

Pharmacy Location

Pharmacy location is a primary factor to be considered when reviewing the financial statistics of a retail pharmacy business. Table 13 illustrates this effect on operating figures for 1986. The distribution is quite similar when compared with last year's data. However, it is interesting to note that the number of pharmacies located in a medical office building setting has increased significantly when compared with the figure published for 1985.

As reported in previous editions of the LILLY DIGEST, shopping center stores continue to report the highest average sales, have the largest floor areas, and remain open the most hours. They also recorded the greatest number of prescriptions dispensed and the most hours worked by employed pharmacists. These units also improved their net profit picture substantially when compared with 1985 figures (up to 2.6% of sales from 2.1%), the result of a significant decline in total expenses as a percent of sales.

Neighborhood pharmacies dispensed the fewest prescriptions and paid the least for rent. These operations also reported the lowest average prescription charge and sales per square foot of floor area.

Pharmacies in medical office buildings reported the highest gross margin and net profit as a percent of sales. These businesses also recorded the lowest inventory investment, smallest floor space, and shortest business hours. Medical office building operations reported the highest inventory turnover rate of any location and paid the highest rent per square foot at $10.39. As expected, medical office building units posted the highest sales per square foot at over $360.

Table 13 *Summary of pharmacy operations according to location*

Averages per Pharmacy	Downtown (264 Pharmacies)	Neighborhood (549 Pharmacies)	Shopping Center (225 Pharmacies)	Medical Office Building (177 Pharmacies)
Sales				
Prescription	$439,530— 64.3%	$388,260— 63.2%	$466,482— 55.9%	$407,820— 84.0%
Other	243,531— 35.7%	225,753— 36.8%	367,493— 44.1%	77,393— 16.0%
Total	$683,061—100.0%	$614,013—100.0%	$833,975—100.0%	$485,213—100.0%
Cost of goods sold	467,648— 68.5%	417,648— 68.0%	567,466— 68.0%	314,147— 64.7%
Gross margin	$215,413— 31.5%	$196,365— 32.0%	$266,509— 32.0%	$171,066— 35.3%
Expenses				
Proprietor's or manager's salary	$ 37,068— 5.4%	$ 38,075— 6.2%	$ 41,758— 5.0%	$ 39,407— 8.1%
Employees' wages	72,906— 10.7%	59,031— 9.6%	88,276— 10.6%	41,880— 8.6%
Rent	14,406— 2.1%	12,534— 2.0%	23,335— 2.8%	14,311— 2.9%
Miscellaneous operating costs	76,589— 11.2%	68,387— 11.2%	91,639— 11.0%	56,389— 11.7%
Total expenses	$200,969— 29.4%	$178,027— 29.0%	$245,008— 29.4%	$151,987— 31.3%
Net profit (before taxes)	$ 14,444— 2.1%	$ 18,338— 3.0%	$ 21,501— 2.6%	$ 19,079— 4.0%
Add proprietor's withdrawals	37,068— 5.4%	38,075— 6.2%	41,758— 5.0%	39,407— 8.1%
Total income of self-employed proprietor (before taxes on income and profits)	$ 51,512— 7.5%	$ 56,413— 9.2%	$ 63,259— 7.6%	$ 58,486— 12.1%
Value of inventory at cost and as a percent of sales				
Prescription	$ 45,003— 10.2%	$ 41,381— 10.7%	$ 47,543— 10.2%	$ 40,703— 10.0%
Other	50,600— 20.8%	52,218— 23.1%	76,660— 20.9%	11,407— 14.7%
Total	$ 95,603— 14.0%	$ 93,599— 15.2%	$124,203— 14.9%	$ 52,110— 10.7%
Annual rate of turnover of inventory	5.0 times	4.5 times	4.6 times	6.1 times
Size of area and sales per square foot*	sq. ft. 2,854 $244.88	sq. ft. 2,901 $216.00	sq. ft. 3,717 $231.60	sq. ft. 1,378 $360.17
Rent per square foot*	$5.05	$4.32	$6.28	$10.39
Number of prescriptions dispensed				
New	16,825— 54.9%	14,004— 51.1%	19,618— 61.7%	16,305— 58.4%
Renewed	13,815— 45.1%	13,412— 48.9%	12,187— 38.3%	11,605— 41.6%
Total	30,640—100.0%	27,416—100.0%	31,805—100.0%	27,910—100.0%
Prescription charge	$14.34	$14.16	$14.67	$14.61
Number of hours per week				
Pharmacy was open	63 hours	61 hours	67 hours	51 hours
Worked by proprietor	48 hours	49 hours	51 hours	43 hours
Worked by employed pharmacist(s)	45 hours	32 hours	49 hours	27 hours

*Based on averages of pharmacies that reported all data

Operating Trends

Ten-Year Trends in Pharmacy Operations

Chart 1 illustrates that the ten-year uptrend of total sales for LILLY DIGEST pharmacies continued during 1986. Sales revenue rose 10% over the previous year's figure, slightly lower than the average annual growth rate of 10.3% over the past decade.

In Table 14, pharmacy operating figures are expressed as percents of sales for each of the past ten years. The cost of goods sold continued an uptrend which stabilized during 1979-1981. Over the decade, the downward trend of total expenses could not offset the lower gross margin, which resulted in a relatively steady decline in net profit. Net profit, as a percent of sales, has fallen from 3.4% in 1977 to 2.7% for 1986. It should be mentioned that, although net profit has tended to decline percentagewise over the decade, it has generally risen in dollars. Rental expense also has increased substantially in dollars but has taken about the same share of sales dollars over the period. Inventory at cost declined over the decade as a percent of sales, but in dollars it grew more than 75% over the ten years. However, the inventory turnover rate showed an improving trend until 1983, when it leveled off at 4.6 times per year. During 1986, the inventory turnover rate rose to 4.8 times per year.

Ten-Year Trends of Balance Sheet and Financial Ratio Data

Ten-year trends of balance sheet figures are shown as percents of sales accompanied by selected financial ratio data for a comparable period in Table 15. Current assets declined as a percent of sales since 1976 because inventory, the largest asset, decreased. Fixed assets have remained relatively constant during the decade at about 3.8% of sales. On the liability side,

Chart 1

A Decade of Sales Growth

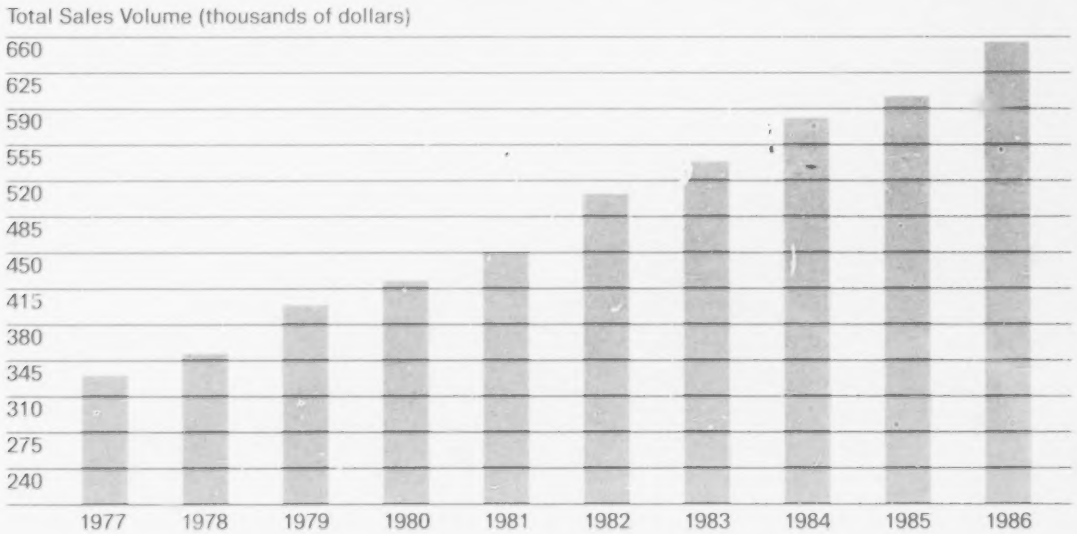


Table 14 *Averages of pharmacy operations—1977-1986 (based on all pharmacies reporting)*

Year	Sales	Cost of Goods Sold	Gross Margin	Proprietor's Salary	Employees' Wages	Rent	Other Expenses	Total Expenses	Net Profit	Inventory at Cost
1977	$322,755	65.1%	34.9%	7.0%	11.8%	2.5%	10.2%	31.5%	3.4%	16.5%
1978	345,302	65.3	34.7	6.9	11.5	2.5	10.4	31.3	3.4	16.5
1979	391,681	65.7	34.3	6.5	11.9	2.5	10.4	31.3	3.0	16.3
1980	416,161	65.7	34.3	6.3	11.8	2.4	10.5	31.0	3.3	16.1
1981	439,133	65.7	34.3	6.3	11.5	2.5	10.8	31.1	3.2	15.7
1982	498,021	66.4	33.6	6.0	11.3	2.4	11.0	30.7	2.9	15.3
1983	528,864	66.9	33.1	6.0	10.8	2.4	11.0	30.2	2.9	14.9
1984	571,313	67.0	33.0	5.8	10.5	2.4	11.2	29.9	3.1	15.0
1985	593,918	67.4	32.6	5.9	10.2	2.4	11.3	29.8	2.8	14.9
1986	653,593	67.8	32.2	5.9	10.0	2.3	11.3	29.5	2.7	14.3

it is not surprising that accounts payable also dropped, although not as rapidly as inventory. This decrease was offset by a rise in notes payable, with the result that total liabilities remained relatively constant. The impact, of course, is a steady decline in net worth. A long-term decline in net working capital as a share of sales during the decade may have reversed, since the figure appears to be trending upward from the level for 1982.

Current assets to current liabilities (current ratio) has remained relatively constant at about three times for most of the ten-year period. However, the 1986 figure has advanced to 3.3 times, reflecting a lower level of current liabilities. Net worth fell to 16.1%—the lowest figure in 10 years—and it became more dependent on debt at 74.9%. The return-on-investment ratio has fluctuated in a relatively narrow range over the period. However, during 1986, this ratio fell to below 20% for the average pharmacy at 19.8%—the lowest level of the decade. These ratios underscore the need for adequate profit in terms of capitalization, because profit is the source of retained earnings. The alternative is debt, which really is an ownership dilution.

Table 15 *Ten-year balance sheet trends*

	1986	1984	1982	1980	1978	1976
	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales
Assets						
Current assets						
Cash	3.9%	3.6%	3.5%	3.4%	3.5%	3.8%
Accounts receivable	4.0%	3.9%	3.8%	3.8%	3.8%	3.9%
Inventory	14.6%	15.3%	15.5%	16.4%	16.5%	16.5%
Total current assets	22.5%	22.8%	22.8%	23.6%	23.8%	24.2%
Fixed assets						
Fixtures and equipment and leasehold improvements (net after reserve for depreciation)	3.7%	3.8%	3.8%	3.9%	3.9%	3.9%
Other assets						
Prepaid expenses, deposits, etc.	2.0%	1.2%	1.7%	1.5%	1.5%	1.3%
Total assets*	28.2%	27.8%	28.3%	29.0%	29.2%	29.4%
Liabilities						
Current and accrued liabilities						
Accounts payable	4.1%	4.2%	4.4%	4.6%	4.7%	4.9%
Notes payable (within one year)	1.5%	1.5%	1.6%	1.6%	1.6%	1.6%
Accrued expenses and other liabilities	1.2%	1.5%	1.6%	1.5%	1.6%	1.5%
Total current and accrued liabilities	6.8%	7.2%	7.6%	7.7%	7.9%	8.0%
Long-term liabilities						
Notes payable (later than one year)	5.3%	4.3%	4.5%	4.5%	4.6%	4.1%
Total liabilities	12.1%	11.5%	12.1%	12.2%	12.5%	12.1%
Net Worth	16.1%	16.2%	16.2%	16.8%	16.7%	17.3%
Total liabilities and net worth*	28.2%	27.8%	28.3%	29.0%	29.2%	29.4%
Net working capital	15.7%	15.5%	15.3%	15.9%	15.9%	16.3%
Sales ($000)	$495.3	$458.4	$420.9	$379.2	$352.9	$314.9
Purchases	67.7%	67.7%	66.9%	66.6%	67.0%	66.2%
Net profit (before taxes)	3.2%	3.5%	3.3%	3.7%	3.6%	3.8%
Financial Ratios						
Current assets to current liabilities	3.3 times	3.1 times	3.0 times	3.1 times	3.0 times	3.0 times
Net sales to net worth	6.2 times	6.2 times	6.2 times	6.0 times	6.0 times	5.8 times
Net profit (before taxes) on net worth	19.8%	21.5%	20.3%	21.8%	21.6%	21.6%
Total debt to net worth	74.9%	71.3%	74.3%	72.8%	74.9%	69.6%

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

Conclusion

The LILLY DIGEST shows that total sales and prescription revenue grew substantially for the average pharmacy during the past decade. However, since the gross margin did not keep pace with expenses, the result is a general decline of net profit before taxes. It is apparent that pharmacy managers will continue to face this pressure on margins as a larger share of health care shifts to third party payors.

The prescription department continues to expand in importance, with almost 64% of total revenue coming from this area during 1986. The concept of the pharmacy as a primary health care center continues to grow and will play a major role in ensuring pharmacy's economic viability. In this regard, third-party groups see economies in plan management when their members are treated successfully as outpatients with pharmaceuticals rather than being institutionalized for therapy.

This highly structured third-party payment system has created economic pressures for pharmacies and manufacturers that will ultimately affect the consumer. It is increasingly difficult for pharmacies to provide the scope of services that consumers have learned to expect under a free-choice environment and still derive an adequate profit to sustain the business. Likewise, the reimbursement system can affect drug manufacturers that need profits to fund research for new cures.

Many pharmacists have urged their colleagues to tell patients the quality story—the importance of quality in pharmacy services and pharmaceuticals. If the need to fund these services and pharmaceutical research is disregarded, the risk is that pharmacies will be forced to reduce patient services, and that manufacturers will be less able to invest the sums necessary to discover and develop new therapies. When the quality of the health care system diminishes, it is the patient who is most affected.

The Self-Analysis Section of the Lilly Digest

This section contains 22 summaries of operating averages arranged according to both annual sales volume and daily prescription activity (Tables 16 through 19). A generally accepted accounting format is used to display the operating data so that comparisons can be made with any pharmacy's figures.

Table 16
Sales under $350,000

Averages per Pharmacy	Total Sales Under $200,000 (73 Pharmacies)		Total Sales $200,000-$250,000 (60 Pharmacies)	
Sales				
Prescription	$116,617	77.6%	$168,133	73.7%
Other	33,612	22.4%	59,883	26.3%
Total	$150,229	100.0%	$228,016	100.0%
Cost of goods sold	97,654	65.0%	147,769	64.8%
Gross margin	$ 52,575	35.0%	$ 80,247	35.2%
Expenses				
Proprietor's or manager's salary	$ 21,354	14.2%	$ 24,362	10.7%
Employees' wages	8,259	5.5%	15,120	6.6%
Rent	5,570	3.7%	7,069	3.1%
Heat, light, and power	1,548	1.0%	2,535	1.1%
Accounting, legal, and other professional fees	926	0.6%	1,190	0.5%
Taxes (except on buildings, income, and profit) and licenses	2,138	1.4%	3,068	1.4%
Insurance (except on buildings)	1,576	1.1%	2,777	1.2%
Interest paid	574	0.4%	1,646	0.7%
Repairs	470	0.3%	998	0.4%
Delivery	601	0.4%	785	0.3%
Advertising	1,990	1.4%	2,515	1.1%
Depreciation (except on buildings)	1,639	1.1%	2,947	1.3%
Bad debts charged off	171	0.1%	401	0.2%
Telephone	936	0.6%	1,299	0.6%
Miscellaneous	4,795	3.2%	6,952	3.1%
	11.6%		11.9%	
Total expenses	$ 52,547	35.0%	$ 73,664	32.3%
Net profit (before taxes)	$ 28	0.0%	$ 6,583	2.9%
Add proprietor's withdrawals	21,354	14.2%	24,362	10.7%
Total income of self-employed proprietor (before taxes on income and profits)	$ 21,382	14.2%	$ 30,945	13.6%
Value of inventory at cost and as a percent of sales				
Prescription	$ 18,002	15.4%	$ 23,320	13.9%
Other	9,511	28.3%	17,997	30.1%
Total	$ 27,513	18.3%	$ 41,317	18.1%
Annual rate of turnover of inventory	3.5 times		3.6 times	
Size of area and sales per square foot*	sq. ft.		sq. ft.	
Prescription	289	$403.52	423	$395.90
Other	760	44.23	1,257	48.37
Total	1,049	$143.21	1,680	$135.91
Number of prescriptions dispensed				
New	4,847	55.7%	6,715	55.9%
Renewed	3,853	44.3%	5,287	44.1%
Total	8,700	100.0%	12,002	100.0%
Prescription charge	$13.40		$14.01	
Number of hours per week				
Pharmacy was open	48 hours		51 hours	
Worked by proprietor	44 hours		46 hours	
Worked by employed pharmacist(s)	8 hours		14 hours	
Sales and prescription activity per pharmacy hours open				
Prescription sales	$46.72		$63.40	
Other sales	$13.47		$22.58	
Prescriptions dispensed	3.5		4.5	

*Based on averages of pharmacies that reported all data

Total Sales $250,000-$300,000 (78 Pharmacies)		Total Sales $300,000-$350,000 Under 50 Prescriptions Daily (59 Pharmacies)		Over 50 Prescriptions Daily (32 Pharmacies)	
$211,648—	76.6%	$220,002—	67.4%	$294,905—	89.7%
64,634—	23.4%	106,291—	32.6%	33,949—	10.3%
$276,282—	100.0%	$326,293—	100.0%	$328,854—	100.0%
185,023—	67.0%	215,627—	66.1%	213,820—	65.0%
$ 91,259—	33.0%	$110,666—	33.9%	$115,034—	35.0%
$ 26,258—	9.5%	$ 28,059—	8.6%	$ 33,043—	10.0%
17,039—	6.2%	24,503—	7.5%	24,333—	7.4%
8,556—	3.1%	9,349—	2.9%	8,286—	2.5%
2,086—	0.8%	3,315—	1.0%	2,363—	0.7%
1,581—	0.6%	1,288—	0.4%	1,562—	0.5%
3,528—	1.3%	4,778—	1.5%	5,253—	1.6%
3,183—	1.1%	3,586—	1.1%	4,026—	1.2%
1,578—	0.6%	3,011—	0.9%	2,609—	0.8%
1,041—	0.3%	1,134—	0.4%	1,195—	0.4%
1,064—	0.4%	977—	0.3%	1,647—	0.5%
2,661—	1.0%	3,370—	1.0%	3,347—	1.0%
3,600—	1.3%	4,860—	1.5%	5,290—	1.6%
465—	0.2%	413—	0.1%	2,828—	0.9%
1,650—	0.6%	1,691—	0.5%	1,948—	0.6%
7,657—	2.7%	10,191—	3.1%	8,858—	2.7%
	10.9%		11.8%		12.5%
$ 81,947—	29.7%	$100,525—	30.8%	$106,588—	32.4%
$ 9,312—	3.3%	$ 10,141—	3.1%	$ 8,446—	2.6%
26,258—	9.5%	28,059—	8.6%	33,043—	10.0%
$ 35,570—	12.8%	$ 38,200—	11.7%	$ 41,489—	12.6%
$ 26,404—	12.5%	$ 28,458—	12.9%	$ 32,298—	11.0%
17,654—	27.3%	32,720—	30.8%	14,681—	43.2%
$ 44,058—	15.9%	$ 61,178—	18.7%	$ 46,979—	14.3%
	4.2 times		3.6 times		4.6 times
sq. ft.		sq. ft.		sq. ft.	
355	$597.41	309	$710.93	482	$613.85
1,570	40.54	1,721	61.79	915	35.93
1,925	$143.24	2,030	$160.76	1,397	$235.45
8,059—	54.7%	7,227—	50.9%	11,091—	53.5%
6,666—	45.3%	6,984—	49.1%	9,641—	46.5%
14,725—	100.0%	14,211—	100.0%	20,732—	100.0%
	$14.37		$15.48		$14.22
	52 hours		56 hours		54 hours
	49 hours		50 hours		50 hours
	17 hours		16 hours		17 hours
	$78.27		$75.55		$105.02
	$23.90		$36.50		$12.09
	5.4		4.8		7.3

Table 17

Sales $350,000—$500,000

Averages per Pharmacy	Total Sales $350,000-$400,000 Under 50 Prescriptions Daily (36 Pharmacies)	Total Sales $350,000-$400,000 Over 50 Prescriptions Daily (63 Pharmacies)
Sales		
Prescription	$244,914— 66.4%	$311,780— 83.2%
Other	124,076— 33.6%	63,105— 16.8%
Total	$368,990—100.0%	$374,885—100.0%
Cost of goods sold	252,069— 68.3%	249,548— 66.6%
Gross margin	$116,921— 31.7%	$125,337— 33.4%
Expenses		
Proprietor's or manager's salary	$ 27,399— 7.4%	$ 33,673— 9.0%
Employees' wages	26,284— 7.1%	28,653— 7.6%
Rent	8,769— 2.4%	8,998— 2.4%
Heat, light, and power	4,369— 1.2%	2,862— 0.7%
Accounting, legal, and other professional fees	2,199— 0.6%	2,158— 0.6%
Taxes (except on buildings, income, and profit) and licenses	5,320— 1.4%	5,646— 1.5%
Insurance (except on buildings)	4,350— 1.2%	4,033— 1.1%
Interest paid	3,236— 0.9%	2,321— 0.6%
Repairs	2,098— 0.6%	1,390— 0.4%
Delivery	1,464— 0.4%	1,113— 0.3%
Advertising	3,397— 0.9%	3,291— 0.9%
Depreciation (except on buildings)	5,804— 1.6%	4,899— 1.3%
Bad debts charged off	390— 0.1%	843— 0.2%
Telephone	2,072— 0.6%	1,825— 0.5%
Miscellaneous	10,824— 2.9%	9,700— 2.6%
	12.4%	10.7%
Total expenses	$107,975— 29.3%	$111,405— 29.7%
Net profit (before taxes)	$ 8,946— 2.4%	$ 13,932— 3.7%
Add proprietor's withdrawals	27,399— 7.4%	33,673— 9.0%
Total income of self-employed proprietor (before taxes on income and profits)	$ 36,345— 9.8%	$ 47,605— 12.7%
Value of inventory at cost and as a percent of sales		
Prescription	$ 29,916— 12.2%	$ 33,603— 10.8%
Other	30,205— 24.3%	16,127— 25.6%
Total	$ 60,121— 16.3%	$ 49,730— 13.3%
Annual rate of turnover of inventory	4.2 times	5.1 times
Size of area and sales per square foot*	sq. ft.	sq. ft.
Prescription	310 $792.76	391 $800.37
Other	1,946 63.33	1,189 52.31
Total	2,256 $163.63	1,580 $237.23
Number of prescriptions dispensed		
New	7,727— 53.9%	13,499— 56.5%
Renewed	6,622— 46.1%	10,382— 43.5%
Total	14,349—100.0%	23,881—100.0%
Prescription charge	$17.07	$13.06
Number of hours per week		
Pharmacy was open	55 hours	57 hours
Worked by proprietor	49 hours	48 hours
Worked by employed pharmacist(s)	10 hours	18 hours
Sales and prescription activity per pharmacy hour open		
Prescription sales	$85.63	$105.19
Other sales	$43.38	$21.29
Prescriptions dispensed	5.0	8.0

*Based on averages of pharmacies that reported all data

Total Sales $400,000-$450,000		Total Sales $450,000-$500,000	
Under 50 Prescriptions Daily (23 Pharmacies)	Over 50 Prescriptions Daily (71 Pharmacies)	Under 75 Prescriptions Daily (68 Pharmacies)	Over 75 Prescriptions Daily (36 Pharmacies)
$235,918— 55.8%	$337,289— 79.3%	$311,811— 65.5%	$404,403— 84.9%
186,949— 44.2%	88,317— 20.7%	164,001— 34.5%	71,763— 15.1%
$422,867—100.0%	$425,606—100.0%	$475,812—100.0%	$476,166—100.0%
284,379— 67.3%	291,486— 68.5%	317,161— 66.7%	310,255— 65.2%
$138,488— 32.7%	$134,120— 31.5%	$158,651— 33.3%	$165,911— 34.8%
$ 29,968— 7.1%	$ 33,544— 7.9%	$ 34,852— 7.3%	$ 40,581— 8.5%
40,227— 9.5%	31,974— 7.5%	43,975— 9.2%	37,738— 7.9%
11,700— 2.8%	10,923— 2.6%	10,949— 2.3%	9,843— 2.1%
5,778— 1.4%	4,112— 1.0%	4,269— 0.9%	3,493— 0.7%
2,014— 0.5%	2,090— 0.5%	2,178— 0.5%	4,491— 0.9%
6,530— 1.5%	6,248— 1.5%	7,331— 1.5%	6,331— 1.3%
4,776— 1.1%	4,826— 1.1%	5,464— 1.1%	4,727— 1.0%
4,118— 1.0%	4,298— 1.0%	2,821— 0.6%	1,822— 0.4%
2,047— 0.5%	1,782— 0.4%	1,916— 0.4%	2,376— 0.5%
1,982— 0.5%	2,015— 0.5%	1,755— 0.4%	1,756— 0.4%
4,123— 1.0%	3,554— 0.8%	4,999— 1.1%	3,524— 0.8%
6,681— 1.6%	6,545— 1.5%	6,427— 1.4%	7,321— 1.5%
537— 0.1%	1,190— 0.3%	635— 0.1%	1,254— 0.3%
2,115— 0.5%	2,396— 0.5%	1,749— 0.4%	2,093— 0.4%
6,957— 1.5%	6,268— 1.5%	14,488— 3.0%	14,271— 3.0%
11.2%	10.6%	11.4%	11.2%
$129,553— 30.6%	$121,765— 28.6%	$143,808— 30.2%	$141,621— 29.7%
$ 8,935— 2.1%	$ 12,355— 2.9%	$ 14,843— 3.1%	$ 24,290— 5.1%
29,968— 7.1%	33,544— 7.9%	34,852— 7.3%	40,581— 8.5%
$ 38,903— 9.2%	$ 45,899— 10.8%	$ 49,695— 10.4%	$ 64,871— 13.6%
$ 28,471— 12.1%	$ 36,793— 10.9%	$ 36,197— 11.6%	$ 40,782— 10.1%
46,645— 25.0%	24,831— 28.1%	41,097— 25.1%	16,346— 22.8%
$ 75,116— 17.8%	$ 61,624— 14.5%	$ 77,294— 16.2%	$ 57,128— 12.0%
3.8 times	4.7 times	4.1 times	5.5 times
sq. ft. sq. ft.	sq. ft. sq. ft.	sq. ft. sq. ft.	sq. ft. sq. ft.
370 $637.62	392 $860.43	368 $847.77	425 $950.73
2,525 74.04	1,896 46.58	2,099 78.01	1,394 51.48
2,895 $146.07	2,288 $186.02	2,467 $192.79	1,819 $261.71
6,229— 42.1%	11,806— 46.8%	11,105— 53.7%	15,849— 50.7%
8,580— 57.9%	13,402— 53.2%	9,581— 46.3%	15,411— 49.3%
14,809—100.0%	25,208—100.0%	20,686—100.0%	31,260—100.0%
$15.93	$13.38	$15.07	$12.94
59 hours	57 hours	61 hours	58 hours
50 hours	48 hours	52 hours	48 hours
39 hours	22 hours	28 hours	20 hours
$76.90	$113.80	$98.30	$134.09
$60.94	$ 29.80	$51.70	$ 23.79
4.8	8.5	6.5	10.3

Table 18
Sales $500,000–$750,000

Averages per Pharmacy	Total Sales $500,000-$600,000 Under 75 Prescriptions Daily (65 Pharmacies)	Total Sales $500,000-$600,000 Over 75 Prescriptions Daily (78 Pharmacies)
Sales		
Prescription	$328,296— 60.4%	$440,932— 80.1%
Other	215,597— 39.6%	109,780— 19.9%
Total	$543,893—100.0%	$550,712—100.0%
Cost of goods sold	362,071— 66.6%	371,706— 67.5%
Gross margin	$181,822— 33.4%	$179,006— 32.5%
Expenses		
Proprietor's or manager's salary	$ 34,438— 6.3%	$ 42,759— 7.8%
Employees' wages	52,538— 9.7%	44,083— 8.0%
Rent	14,440— 2.7%	11,638— 2.1%
Heat, light, and power	4,800— 0.9%	3,110— 0.6%
Accounting, legal, and other professional fees	2,938— 0.5%	2,272— 0.4%
Taxes (except on buildings, income, and profit) and licenses	7,936— 1.4%	8,211— 1.5%
Insurance (except on buildings)	6,817— 1.2%	5,757— 1.1%
Interest paid	4,521— 0.8%	2,251— 0.4%
Repairs	2,551— 0.5%	1,815— 0.3%
Delivery	2,107— 0.4%	2,265— 0.4%
Advertising	6,458— 1.2%	4,534— 0.8%
Depreciation (except on buildings)	8,200— 1.5%	7,001— 1.3%
Bad debts charged off	979— 0.2%	1,029— 0.2%
Telephone	2,405— 0.4%	2,157— 0.2%
Miscellaneous	18,240— 3.4%	17,111— 3.1%
	12.4%	10.5%
Total expenses	$169,368— 31.1%	$155,993— 28.4%
Net profit (before taxes)	$ 12,454— 2.3%	$ 23,013— 4.1%
Add proprietor's withdrawals	34,438— 6.3%	42,759— 7.8%
Total income of self-employed proprietor (before taxes on income and profits)	$ 46,892— 8.6%	$ 65,772— 11.9%
Value of inventory at cost and as a percent of sales		
Prescription	$ 36,395— 11.1%	$ 43,793— 9.9%
Other	57,856— 26.8%	23,336— 21.3%
Total	$ 94,251— 17.3%	$ 67,129— 12.2%
Annual rate of turnover of inventory	3.9 times	5.7 times
Size of area and sales per square foot*	sq. ft.	sq. ft.
Prescription	406 $801.97	438 $1,007.88
Other	2,608 83.55	1,563 70.29
Total	3,014 $180.29	2,001 $ 275.46
Number of prescriptions dispensed		
New	12,249— 59.0%	17,911— 53.7%
Renewed	8,503— 41.0%	15,471— 46.3%
Total	20,752—100.0%	33,382—100.0%
Prescription charge	$15.82	$13.21
Number of hours per week		
Pharmacy was open	62 hours	58 hours
Worked by proprietor	49 hours	44 hours
Worked by employed pharmacist(s)	33 hours	28 hours
Sales and prescription activity per pharmacy hour open		
Prescription sales	$101.83	$146.20
Other sales	$ 66.87	$ 36.40
Prescriptions dispensed	6.4	11.1

*Based on averages of pharmacies that reported all data

	Total Sales $600,000-$750,000	
Under 75 Prescriptions Daily (44 Pharmacies)	75 to 100 Prescriptions Daily (50 Pharmacies)	Over 100 Prescriptions Daily (45 Pharmacies)
$337,313— 52.1%	$479,018— 72.6%	$582,845— 83.9%
310,486— 47.9%	180,549— 27.4%	112,055— 16.1%
$647,799—100.0%	$659,567—100.0%	$694,900—100.0%
440,745— 68.0%	444,973— 67.5%	464,177— 66.8%
$207,054— 32.0%	$214,594— 32.5%	$230,723— 33.2%
$ 36,477— 5.6%	$ 41,825— 6.3%	$ 47,283— 6.8%
65,101— 10.0%	65,351— 9.9%	67,777— 9.8%
16,275— 2.5%	13,828— 2.1%	11,596— 1.7%
6,319— 1.0%	5,636— 0.9%	4,525— 0.6%
3,112— 0.5%	3,267— 0.5%	2,343— 0.3%
9,810— 1.5%	10,395— 1.6%	10,444— 1.5%
7,382— 1.2%	8,152— 1.2%	7,919— 1.1%
5,132— 0.8%	3,222— 0.5%	2,712— 0.4%
2,353— 0.4%	3,449— 0.5%	2,679— 0.4%
2,351— 0.4%	2,267— 0.3%	2,115— 0.3%
7,181— 1.1%	5,937— 0.9%	4,763— 0.7%
8,901— 1.4%	10,103— 1.5%	8,861— 1.3%
677— 0.1%	1,100— 0.2%	931— 0.1%
2,129— 0.3%	2,622— 0.4%	2,053— 0.3%
19,630— 3.0%	20,814— 3.2%	25,910— 3.7%
11.7%	11.7%	10.7%
$192,830— 29.8%	$197,968— 30.0%	$201,911— 29.0%
$ 14,224— 2.2%	$ 16,626— 2.5%	$ 28,812— 4.2%
36,477— 5.6%	41,825— 6.3%	47,263— 6.8%
$ 50,701— 7.8%	$ 58,451— 8.8%	$ 76,095— 11.0%
$ 36,146— 10.7%	$ 49,671— 10.4%	$ 55,082— 9.5%
63,250— 20.4%	47,088— 26.1%	27,472— 24.5%
$ 99,396— 15.3%	$ 96,759— 14.7%	$ 82,554— 11.9%
4.5 times	4.6 times	5.7 times
sq. ft. sq. ft.	sq. ft. sq. ft.	sq. ft. sq. ft.
322 $1,071.07	377 $1,275.55	424 $1,373.63
2,853 106.41	2,381 74.93	1,806 62.05
3,175 $ 204.33	2,758 $ 238.98	2,230 $ 311.61
10,568— 54.2%	17,838— 56.1%	23,093— 53.5%
8,941— 45.8%	13,946— 43.9%	20,080— 46.5%
19,509—100.0%	31,784—100.0%	43,173—100.0%
$17.29	$15.07	$13.50
68 hours	64 hours	60 hours
49 hours	47 hours	48 hours
38 hours	41 hours	39 hours
$ 95.39	$143.94	$186.81
$ 87.81	$ 54.25	$ 35.92
5.5	9.5	13.8

Table 19

Sales $750,000–over $1,500,000

Averages per Pharmacy	Total Sales $750,000-$1,000,000	
	Under 100 Prescriptions Daily (68 Pharmacies)	100 to 125 Prescriptions Daily (53 Pharmacies)
Sales		
Prescription	$441,855— 52.0%	$586,250— 68.8%
Other	408,238— 48.0%	266,007— 31.2%
Total	$850,093—100.0%	$852,257—100.0%
Cost of goods sold	580,986— 68.4%	576,616— 67.7%
Gross margin	$269,107— 31.6%	$275,641— 32.3%
Expenses		
Proprietor's or manager's salary	$ 44,903— 5.3%	$ 47,929— 5.6%
Employees' wages	93,176— 11.0%	93,221— 10.9%
Rent	23,984— 2.8%	18,942— 2.2%
Heat, light, and power	7,141— 0.8%	6,426— 0.8%
Accounting, legal, and other professional fees	4,239— 0.5%	4,024— 0.5%
Taxes (except on buildings, income, and profit) and licenses	12,427— 1.5%	12,018— 1.4%
Insurance (except on buildings)	10,233— 1.2%	10,259— 1.2%
Interest paid	4,375— 0.5%	3,200— 0.4%
Repairs	3,698— 0.4%	2,761— 0.3%
Delivery	2,513— 0.3%	2,721— 0.3%
Advertising	8,781— 1.0%	8,425— 1.0%
Depreciation (except on buildings)	10,530— 1.2%	11,075— 1.3%
Bad debts charged off	1,056— 0.1%	882— 0.1%
Telephone	2,742— 0.3%	2,956— 0.3%
Miscellaneous	26,618— 3.2%	26,441— 3.1%
	11.0%	10.7%
Total expenses	$256,416— 30.1%	$251,280— 29.4%
Net profit (before taxes)	$ 12,691— 1.5%	$ 24,361— 2.9%
Add proprietor's withdrawals	44,903— 5.3%	47,929— 5.6%
Total income of self-employed proprietor (before taxes on income and profits)	$ 57,594— 6.8%	$ 72,290— 8.5%
Value of inventory at cost and as a percent of sales		
Prescription	$ 47,212— 10.7%	$ 56,192 - 9.6%
Other	76,663— 18.8%	59,498— 22.4%
Total	$123,875— 14.6%	$115,690— 13.6%
Annual rate of turnover of inventory	4.7 times	5.1 times
Size of area and sales per square foot*	sq. ft.	sq. ft.
Prescription	438 $1,008.80	486 $1,210.94
Other	3,315 123.15	2,879 92.16
Total	3,753 $ 226.51	3,365 $ 253.58
Number of prescriptions dispensed		
New	16,681— 58.7%	20,747— 51.3%
Renewed	11,753— 41.3%	19,728— 48.7%
Total	28,434—100.0%	40,475—100.0%
Prescription charge	$15.54	$14.48
Number of hours per week		
Pharmacy was open	69 hours	65 hours
Worked by proprietor	45 hours	49 hours
Worked by employed pharmacist(s)	52 hours	52 hours
Sales and prescription activity per pharmacy hour open		
Prescription sales	$123.15	$173.45
Other sales	$113.78	$ 78.70
Prescriptions dispensed	7.9	11.9

*Based on averages of pharmacies that reported all data

	Total Sales $1,000,000-$1,500,000		Total Sales Over $1,500,000
Over 125 Prescriptions Daily (37 Pharmacies)	Under 125 Prescriptions Daily (61 Pharmacies)	Over 125 Prescriptions Daily (76 Pharmacies)	(69 Pharmacies)
$700,129— 80.5%	$ 527,969— 44.2%	$ 852,697— 69.6%	$ 932,934— 46.2%
169,586— 19.5%	666,883— 55.8%	372,917— 30.4%	1,083,874— 53.8%
$869,715—100.0%	$1,194,852—100.0%	$1,225,614—100.0%	$2,016,808—100.0%
590,373— 67.9%	838,609— 70.2%	833,389— 68.0%	1,388,413— 68.8%
$279,342— 32.1%	$ 356,243— 29.8%	$ 392,225— 32.0%	$ 628,395— 31.2%
$ 44,366— 5.1%	$ 54,480— 4.6%	$ 56,095— 4.6%	$ 58,630— 2.9%
85,981— 9.9%	129,808— 10.9%	130,475— 10.7%	251,152— 12.5%
17,541— 2.0%	29,874— 2.5%	22,788— 1.9%	44,218— 2.2%
5,081— 0.6%	11,893— 1.0%	7,409— 0.6%	16,198— 0.8%
4,022— 0.5%	4,966— 0.4%	4,236— 0.3%	8,620— 0.4%
11,672— 1.3%	18,363— 1.5%	16,527— 1.3%	29,106— 1.5%
10,137— 1.2%	12,135— 1.0%	10,417— 0.8%	20,342— 1.0%
4,789— 0.5%	5,563— 0.5%	4,630— 0.4%	9,684— 0.5%
3,613— 0.4%	5,258— 0.4%	4,169— 0.3%	9,142— 0.4%
5,345— 0.6%	2,725— 0.2%	4,093— 0.3%	5,994— 0.3%
6,702— 0.8%	15,108— 1.3%	11,926— 1.0%	22,159— 1.1%
10,125— 1.2%	13,588— 1.1%	13,650— 1.1%	21,866— 1.1%
2,183— 0.2%	1,535— 0.1%	2,360— 0.2%	3,590— 0.2%
4,100— 0.5%	3,372— 0.3%	3,447— 0.3%	7,540— 0.3%
29,293— 3.3%	36,710— 3.1%	58,832— 4.9%	70,416— 3.5%
11.1%	10.9%	11.5%	11.1%
$244,950— 28.1%	$ 345,378— 28.9%	$ 351,054— 28.7%	$ 573,657— 28.7%
$ 34,392— 4.0%	$ 10,865— 0.9%	$ 41,171— 3.3%	$ 49,738— 2.5%
44,366— 5.1%	54,480— 4.6%	56,095— 4.6%	58,630— 2.9%
$ 78,758— 9.1%	$ 65,345— 5.5%	$ 97,266— 7.9%	$ 108,368— 5.4%
$ 61,103— 8.7%	$ 55,209— 10.5%	$ 70,692— 8.3%	$ 94,255— 10.1%
38,622— 22.8%	131,146— 19.7%	74,653— 20.0%	190,320— 17.6%
$ 99,725— 11.5%	$ 186,355— 15.6%	$ 145,345— 11.9%	$ 284,575— 14.1%
6.0 times	4.5 times	5.7 times	4.8 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.
620 $1,133.48	476 $1,109.18	552 $1,544.74	774 $1,205.34
1,758 94.04	5,162 129.19	3,411 109.33	6,230 173.97
2,378 $ 365.03	5,638 $ 211.93	3,963 $ 309.26	7,004 $ 287.95
30,526— 56.3%	19,091— 56.6%	32,708— 54.3%	37,906— 58.4%
23,732— 43.7%	14,665— 43.4%	27,526— 45.7%	27,055— 41.6%
54,258—100.0%	33,756—100.0%	60,234—100.0%	64,961—100.0%
$12.90	$15.64	$14.16	$14.36
60 hours	75 hours	67 hours	76 hours
46 hours	53 hours	48 hours	52 hours
51 hours	62 hours	75 hours	95 hours
$224.40	$135.38	$244.75	$236.06
$ 50.17	$170.99	$107.04	$274.26
17.4	8.6	17.3	16.4

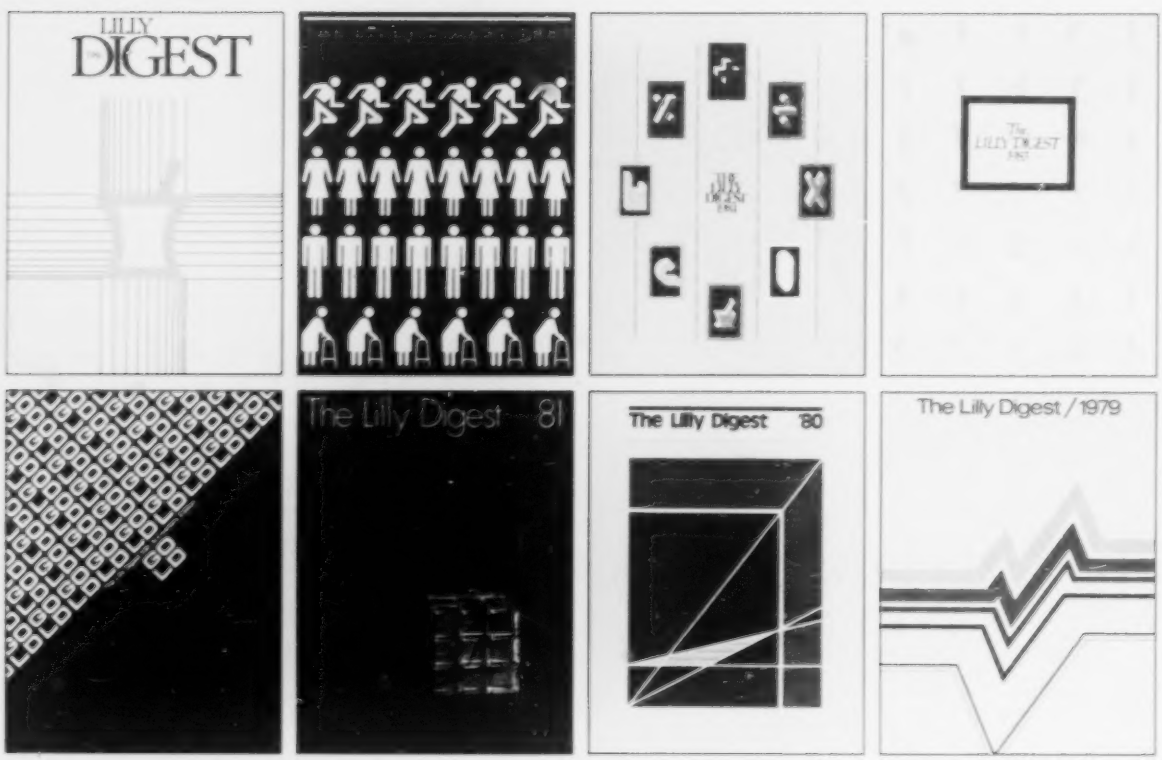
Lilly Analysis Service

A pharmacy's financial statement reflects the strengths and weaknesses of management's policies. It is extremely important that the information found in these statements be properly interpreted and utilized. Pharmacy management can more easily find problem areas and provide solutions by reviewing a pharmacy's financial figures on a regular basis. Such a methodical approach identifies problems early when they can be corrected easily, rather than waiting for them to become unwieldy and difficult to solve. A constant flow of good information is at the heart of a well-managed business.

The Lilly Analysis Service is designed to support management's financial review. Operating data from any community pharmacy will be analyzed at no charge. The service is available to any pharmacist upon request, and all information is kept *strictly confidential*.

After a pharmacy's figures are received, they are audited and computerized. The printouts are then analyzed by staff experts, the comments are typed, and the completed reports are mailed directly to the designated addresses. Names need not be given if the address is adequate.

The object of the report is to identify areas that may present potential problems and, if appropriate, offer suggestions for improvement that may be considered. Operating areas that seem to be performing quite satisfactorily will also be identified. To receive a *free personal and confidential* analysis, contact the Lilly Analysis Service, Department MC-698, Eli Lilly and Company, Indianapolis, Indiana 46285.



Analysis Work Sheet

If you wish to perform your own analysis, this work sheet will be useful . . .
fill in and compare

Income and Expense Statement	Current Data (Dollars)	Current Data (% of Sales)	Last Year's Data (% of Sales)	Lilly Digest Data (Comparable Category) (see page 25)	Notes (▲ or ▼)
Inventory (start of period) of goods at cost	$	%	%	%	
Total amount of merchandise purchased	$	%	%	%	
Cost of goods sold	$	%	%	%	
Gross margin (net sales less cost of goods sold)	$	%	%	%	
Expenses					
Proprietor's or manager's salary	$	%	%	%	
Employees' wages	$	%	%	%	
Rent	$	%	%	%	
Heat, light, and power	$	%	%	%	
Accounting, legal, and other professional fees	$	%	%	%	
Taxes (except on buildings, income, and profit) and licenses	$	%	%	%	
Insurance (except on buildings)	$	%	%	%	
Interest paid	$	%	%	%	
Repairs	$	%	%	%	
Delivery	$	%	%	%	
Advertising	$	%	%	%	
Depreciation (except on buildings)	$	%	%	%	
Bad debts charged off	$	%	%	%	
Telephone	$	%	%	%	
Miscellaneous	$	%	%	%	
Total expenses	$	%	%	%	
Net operating profit (gross margin less total expenses)	$	%	%	%	

Balance Sheet	Current Data (Dollars)	Current Data (% of Sales)	Last Year's Data (% of Sales)	Lilly Digest Data (Comparable Category) (see pages 12-14)	Notes (▲ or ▼)
Current assets					
Cash	$	%	%	%	
Accounts receivable	$	%	%	%	
Merchandise inventory	$	%	%	%	
Total current assets	$	%	%	%	
Fixed assets (exclude land and buildings)					
Fixtures, equipments, leasehold improvements	$	%	%	%	
Less depreciation reserve	$	%	%	%	
Net fixed assets	$	%	%	%	
Other assets (prepaid expenses, deposits)	$	%	%	%	
Total assets	$	%	%	%	
Current liabilities					
Accounts payable	$	%	%	%	
Notes payable (within one year)	$	%	%	%	
Accrued expenses and other liabilities	$	%	%	%	
Total current liabilities	$	%	%	%	
Long-term liabilities (notes payable later than one year)	$	%	%	%	
Total liabilities	$	%	%	%	
Net worth	$	%	%	%	

Your self-analysis work sheet continues on the next page

Other Calculations	Current Data	Last Year's Data	Lilly Digest Data (Comparable Categories) (see pages 25 and 12-14)	Notes (◆ or ●)
Inventory turnover	times	times	times	
Prescription sales/prescription inventory	$	$	$	
Average prescription charge	$	$	$	
Number of prescriptions				
Current assets/current liabilities	times	times	times	
Net sales/net working capital	times	times	times	
Long-term liabilities/net working capital	%	%	%	
Accounts payable outstanding	days	days	days	
Net profit/net worth	%	%	%	

If you would like to have the Lilly Analysis Service analyze your financial data for the current year, just complete the income and expense statement and balance sheet "current data" column as well as provide the requested information in the supplemental information section below. Then . . . mail the entire analysis work sheet to Eli Lilly and Company, Department MC-698, Building 74/5, Indianapolis, Indiana 46285.

Supplemental Information

Size of entire pharmacy: _____ sq. ft.

Size of prescription department: _____ sq. ft.

Years and type of operation under same ownership:

☐ Under 2 ☐ 2 to 5 ☐ 5 to 10 ☐ Over 10

Sole proprietorship ☐ Partnership ☐ Corporation

Pharmacy location:

☐ Traditional ☐ Shopping center ☐ Medical office building

Business space is? ☐ Rented ☐ Owned

Figures submitted last year? ☐ Yes ☐ No

Number of prescriptions dispensed:
(For the period of time covered
by the Income and Expense Statement)

New _____

Renewals _____

Total _____

Total prescription receipts: $ _____

Prescription inventory: $ _____

Individual Analysis (Send individual analysis to:)

Name or P.O. Box _____

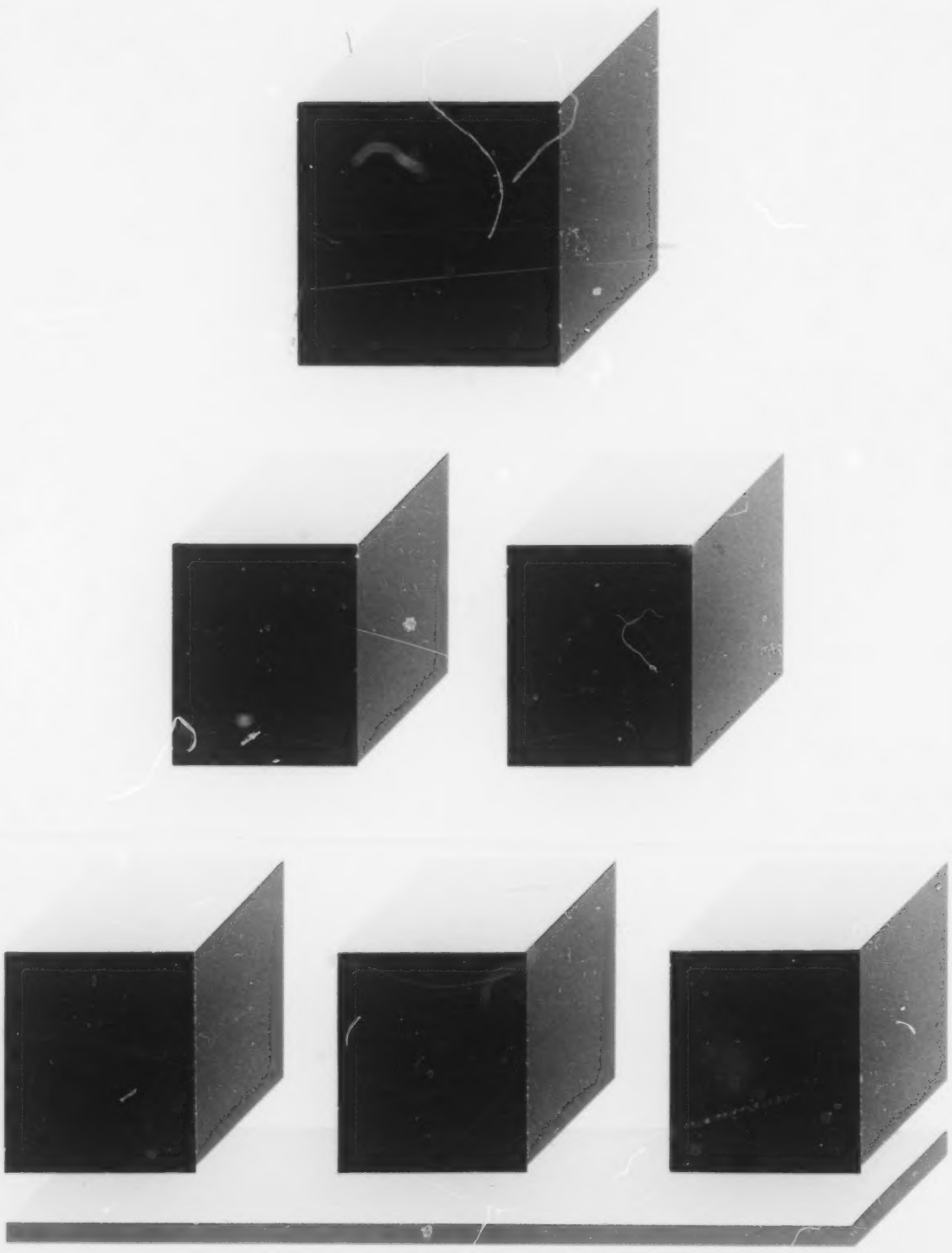
Street _____

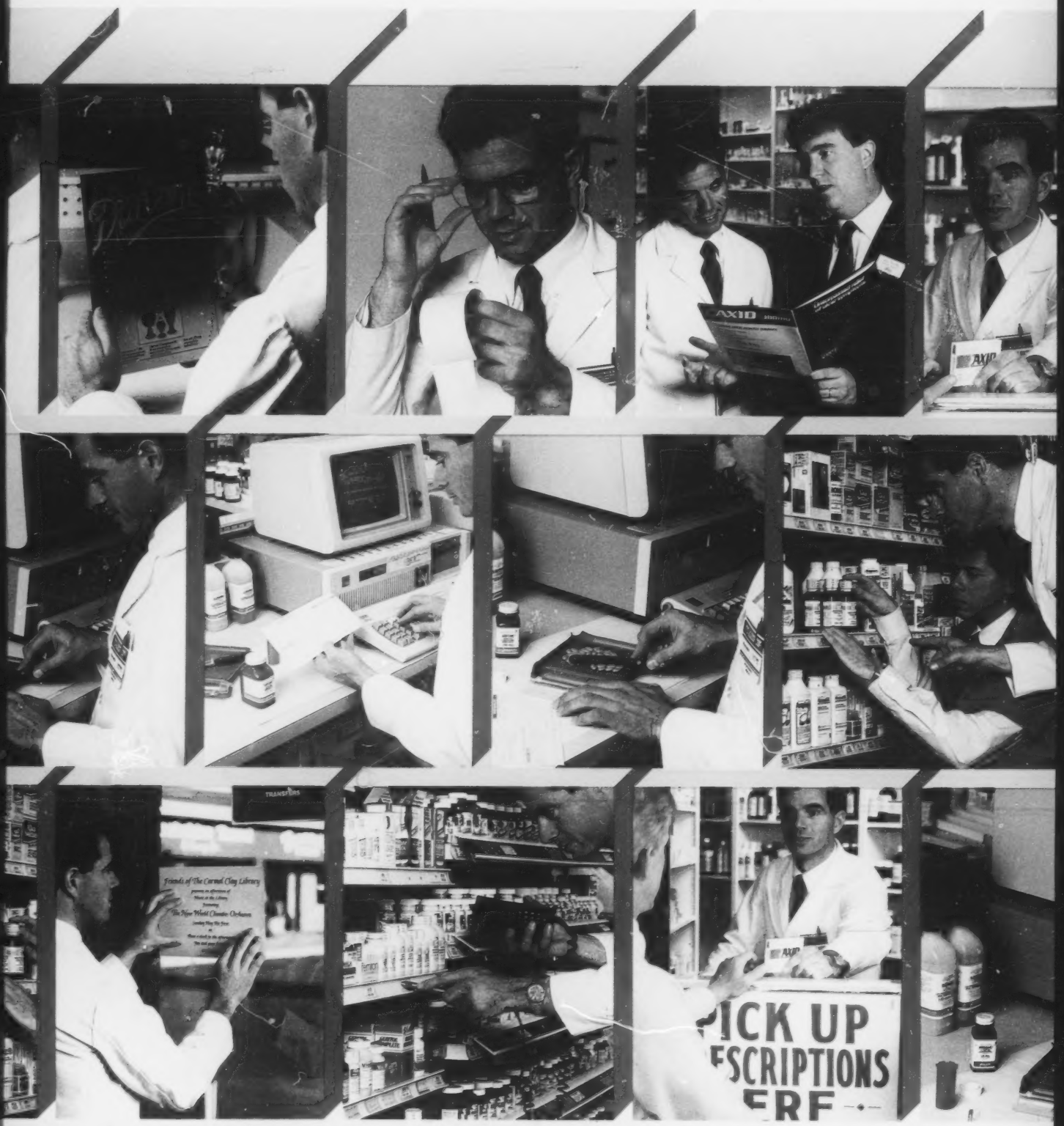
City _____ State _____

Zip Code _____

REFER INQUIRIES TO: CARL H. DEINER, RPh
(317-276-6009)

LILLY DIGEST

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ESCRIPTIONS

A summary of the 1987 operations of 1,806 independent community pharmacies

The most comprehensive report of independent community pharmacy operations available

Published annually in the interest of sound management

Eli Lilly and Company
Lilly Corporate Center
Indianapolis, IN 46285

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Participating pharmacists, owners of community pharmacies, Lilly wholesalers, colleges of pharmacy, university libraries, pharmacy associations, the press, and selected others may receive free copies of the LILLY DIGEST. Copies may be obtained directly from Eli Lilly and Company or from Lilly/Dista/Select Products representatives. Others who wish to purchase copies of the LILLY DIGEST may do so by calling 1-800-282-2100, extension 100. (In Indiana, call 317-788-5615.) All orders will be billed for $25 plus shipping.

CORPORATE MISSION

Eli Lilly and Company is a research-based corporation that develops, manufactures, and markets pharmaceuticals, medical instruments, diagnostic products, and agricultural products.

To guide its affairs, the company follows certain fundamental principles. These principles are the following:

The company is committed to the discovery and marketing of innovative products of the highest quality that offer benefits to customers in all of our markets.

The company is dedicated to the highest levels of ethics, integrity, and excellence in research, manufacturing, marketing, and all other phases of its operations.

The company recognizes a primary responsibility to its employees because of the key role employees play in the achievement of corporate goals. The company's objective is to attract and retain outstanding people at all levels and in all parts of the organization. It is committed to fair and equitable treatment of all employees and to policies and programs that offer the opportunity for employees to develop meaningful and rewarding careers.

The company feels an obligation to be a good corporate citizen wherever it operates.

FOREWORD

The LILLY DIGEST is published annually as a service to the pharmacy profession. It is designed to be used by independent community pharmacy managers in the evaluation of their pharmacy operating data. The LILLY DIGEST contains store operating information derived from voluntary submissions by community pharmacists throughout the United States. The LILLY DIGEST makes no attempt to define or structure the sample. It presents the averages of reported data without editorial comment.

The Heart of the LILLY DIGEST (pages 13 through 24) contains 29 summaries of 1987 operating figures, arranged according to total sales volume and daily prescription activity. For comparative purposes, a manager can readily isolate the summary that is most similar to the operation to be analyzed.

This edition marks the 56th year the LILLY DIGEST has been published. Eli Lilly and Company appreciates the assistance of more than 1,800 pharmacists who submitted operating data. Without their participation, this edition would not have been possible.

LILLY ANALYSIS SERVICE

The Lilly Analysis service is designed to support management's financial review. Operating data from any community pharmacy will be analyzed at no charge. The service is available to any pharmacist upon request and all information is kept *strictly confidential.*

After a pharmacy's figures are received, they are audited and computerized. The printouts are then anaylzed by staff experts, and a written report is mailed directly to the designated addressee. If the address given is adequate for mailing, no name need be submitted.

To receive a *free personal* and *confidential* analysis, contact the Lilly Analysis Service, Department MC-698, Eli Lilly and Company, Indianapolis, Indiana 46285.

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EXECUTIVE SUMMARY

For the 38th consecutive year, LILLY DIGEST participating pharmacies reported higher sales and once again set a new record—an average of over $678,000 (Table 1). Total sales grew 3.8% during 1987, well below the average annual growth rate of 9.2% observed over the past decade. The average annual growth rate has been slowing since 1983 and now appears to be in the 5% to 6% range. The cost of goods sold increased at a faster rate than total sales and took a slightly larger share of the sales dollar, which resulted in a lower gross margin. However, total expenses as a percent of sales dropped substantially during 1987. As a result, net profit before taxes increased to 3.3% of sales. This represents a reversal of a profit downtrend that started in 1984 and marks the highest net profit level reported since 1980.

Prescription revenue grew 7.9% during the year in contrast with a 3.5% decline in other sales. In a typical community pharmacy, prescription sales accounted for over 66% of the total sales volume. These statistics represent new records for both the number of prescriptions and dollar volume as a percent of total sales.

During 1987, the cost of goods sold reached 67.9% of sales, continuing an uptrend that began in 1982. As a result, the gross margin declined to 32.1%—the lowest it has been since 1942. Managers usually respond to such changes by reviewing pricing policies, reevaluating purchase practices, and examining theft deterrents.

Although increasing in terms of dollars, total expenses as a percent of sales declined from 29.5% in 1986 to 28.8% in 1987. Managers typically attempt to maintain profit in the face of a declining margin by reducing or holding total expenditures. The most significant attempt in this area involved employees' wages, which dropped both in dollars and percent of sales. Proprietor's salary rose in dollars and as a percent of sales (6.3%). The combined impact was a net reduction in expenditures that more than offset the drop in gross margin. As a result, net profit increased to 3.3% of sales. Miscellaneous operating expenses (all expenses other than proprietor's/manager's salary, employees' wages, and rent) declined to 10.7% of sales. One of the items in this category that has grown in recent years is computer expense. Next year's DIGEST will include an analysis of costs associated with computer equipment.

Net profit before taxes rose over 25% during the year—an average of almost $5,000. This increase in net profit dollars and in the salary drawn by the owner/manager resulted in a new high for total income of over $65,000. As a percent of sales, total income rose to 9.6%, a full percentage point over the 1986 figure and the highest return seen since 1981.

Although total inventory dollars increased, inventory expressed as a percent of sales declined to 14.1%. Prescription inventory cost $3,800 more during 1987, but as percent of prescription sales it remained unchanged at 10.4%. The prescription department sales productivity was relatively steady at about $9.60 per stock dollar. Other merchandise inventory increased slightly from 21.3% to 21.5% of other sales, but sales productivity was essentially stable at about $4.66 per dollar of inventory investment for the front area.

The inventory turnover ratio is a barometer of how well products are selling in an operation. A low turnover indicates that merchandise may be overstocked or that the wrong merchandise may be purchased. On the other hand, an above average turnover rate may mean that management is purchasing products wanted by customers and that the quantities stocked are adequate to meet demand without being excessive or risking out-of-stocks. Average inventory turnover (ie, the number of times the total stock is sold and replaced during the year) rose from 4.8 to 4.9 times.

Merchandise selling space in the average independent community pharmacy increased slightly to over 2,820 square feet during 1987. The sales productivity of the prescription area rose slightly, and led a general uptrend in total sales productivity. Rent per square foot was $5.64, an increase of $.18 over the 1986 figure.

A modest increase (0.8%) in prescriptions dispensed accompanied by a rise of $1.01 (7.0%) in the average prescription charge resulted in increased prescription sales. The average prescription charge in 1987 was $15.37. The share of new prescription activity increased to 62.5% of total prescriptions with new prescriptions reaching an average of over 18,000. Even though renewed prescriptions declined, total prescriptions continued a seven-year growth trend with an increase of over 220 prescriptions dispensed.

Prescription sales per pharmacy hour open increased almost 10% during 1987 to over $140. For the second consecutive year, total sales per hour exceeded $200. Prescriptions dispensed also increased slightly to 9.4 per hour. This figure has increased steadily during the past eight years partly due to declining hours open.

The 1960 LILLY DIGEST reported that the average pharmacy was open 75 hours, often seven days, a week. The services pharmacies offered reflected the needs of the community. For example, many pharmacies included soda fountains, post offices, bill-paying services, and pay telephones. These may well have required ten to thirteen hours open each day, seven days a week.

During intervening years the number of hours open has steadily declined. In 1987 the average pharmacy was open 60 hours per week, the fewest weekly hours ever reported. This year, 62% of participating pharmacies were open six days a week; only 27% were open seven days a week. It seems likely that pharmacists have adjusted their services and hours to meet community needs. The decline of weekly hours open may simply be the result of a shift from services that were formerly necessary on Sundays or during early and late hours.

Table 1 *Current trends in pharmacy operations*

Averages per Pharmacy	1987 1,806 Pharmacies		1986 1,245 Pharmacies		Amount and Percent of Change
Sales					
Prescription	$450,815	66.5%	$417,895	63.9%	+ $32,920 — 7.9%
Other	227,333	33.5%	235,698	36.1%	− $ 8,365 — 3.5%
Total	$678,148	100.0%	$653,593	100.0%	+ $24,555 — 3.8%
Cost of goods sold	460,660	67.9%	443,390	67.8%	+ $17,270 — 3.9%
Gross margin	$217,488	32.1%	$210,203	32.2%	+ $ 7,285 — 3.5%
Expenses					
Proprietor's salary	$ 42,650	6.3%	$ 38,605	5.9%	+ $ 4,045 — 10.5%
Employees' wages	63,588	9.4%	65,073	10.0%	− $ 1,485 — 2.3%
Rent	15,931	2.4%	15,266	2.3%	+ $ 665 — 4.4%
Heat, light, and power	5,022	0.7%	5,274	0.8%	− $ 252 — 4.8%
Accounting, legal, and other professional fees	3,070	0.5%	3,007	0.5%	+ $ 63 — 2.1%
Taxes (except on buildings, income, and profit) and licenses	8,965	1.3%	9,454	1.4%	− $ 489 — 5.2%
Insurance (except on buildings)	7,271	1.1%	7,070	1.1%	+ $ 201 — 2.8%
Interest paid	4,683	0.7%	5,228	0.8%	− $ 545 — 10.4%
Repairs	2,762	0.4%	2,669	0.4%	+ $ 93 — 3.5%
Delivery	2,005	0.3%	2,224	0.3%	− $ 219 — 9.8%
Advertising	6,859	1.0%	6,585	1.0%	+ $ 274 — 4.2%
Depreciation (except on buildings)	8,233	1.2%	8,239	1.3%	− $ 6 — 0.1%
Bad debts charged off	1,247	0.2%	1,119	0.1%	+ $ 128 — 11.4%
Telephone	2,524	0.4%	2,534	0.4%	− $ 10 — 0.4%
Miscellaneous	19,966	2.9%	20,057	3.1%	− $ 91 — 0.5%
Total expenses	$194,776	28.8%	$192,404	29.5%	+ $ 2,372 — 1.2%
Net profit (before taxes)	$ 22,712	3.3%	$ 17,799	2.7%	+ $ 4,913 — 27.6%
Proprietor's withdrawals	42,650	6.3%	38,605	5.9%	+ $ 4,045 — 10.5%
Total income of self-employed proprietor (before taxes on income and profits)	$ 65,362	9.6%	$ 56,404	8.6%	+ $ 8,958 — 15.9%
Value of inventory at cost and as a percent of sales					
Prescription	$ 47,096	10.4%	$ 43,296	10.4%	+ $ 3,800 — 8.8%
Other	48,790	21.5%	50,258	21.3%	− $ 1,468 — 2.9%
Total	$ 95,886	14.1%	$ 93,554	14.3%	+ $ 2,332 — 2.5%
Annual rate of inventory turnover	4.9 times		4.8 times		
Size of area and sales per square foot*	sq. ft.		sq. ft.		
Prescription	447	$1,002.80	449	$963.41	— 2 — 0.4%
Other	2,377	88.26	2,379	97.04	— 2 — 0.1%
Total	2,824	$ 233.02	2,828	$229.57	— 4 — 0.1%
Number of prescriptions dispensed					
New	18,322	62.5%	16,080	55.2%	+ 2,242 — 13.9%
Renewed	11,011	37.5%	13,026	44.8%	− 2,015 — 15.5%
Total	29,333	100.0%	29,106	100.0%	+ 227 — 0.8%
Prescription charge	$15.37		$14.36		+ $ 1.01 — 7.0%
Number of hours per week					
Pharmacy was open	60 hours		61 hours		− 1
Worked by proprietor	54 hours		48 hours		+ 6
Worked by employed pharmacist(s)	31 hours		36 hours		− 5
Sales and prescription activity per pharmacy hour open					
Prescription sales	$144.49		$131.74		+ $ 12.75 — 9.7%
Other sales	$ 72.86		$ 74.31		− $ 1.45 — 2.0%
Prescriptions dispensed	9.4		9.2		

*Based on averages of pharmacies that reported all data

NOTE: These national averages are presented to give a composite picture of the average LILLY DIGEST pharmacy. Comparisons for analysis should be based on the operations of pharmacies of comparable sales and prescription volume that appear in one of the 29 arrangements in "The Heart of the LILLY DIGEST" (pp. 13-24.)

Balance Sheet

Table 2 summarizes the balance sheet data submitted by 1,252 pharmacies. When compared with 1986 data, net working capital increased by over $6,500 as a result of a rise in current assets, especially inventory, and an unchanged figure for current liabilities. Fixed assets declined slightly, both in dollars and as a percent of sales. Although total assets increased as a dollar figure to over $143,000, this figure decreased to 27.6% of sales, continuing a long-term downtrend begun over a decade ago.

The overall effect of decline in both current and long-term liabilities was a decrease in total liabilities to 11.4% of sales. Net worth increased about $4,400 (up 5.5%) during 1987. Return on investment (ie, net profit on net worth) increased to 24.3%, a substantial increase over the long-term average of about 21%.

Table 2 *Current trends in balance sheet information and financial ratios*

Averages per Pharmacy	December 31, 1987 (1,252 Pharmacies)	Percent of Sales	December 31, 1986 (873 Pharmacies)	Percent of Sales	Amount and Percent of Change
Assets					
Current assets					
Cash	$ 21,103— 14.7%	4.1%	$ 19,467— 13.9%	3.9%	+$ 1,636— 8.4%
Accounts receivable	21,585— 15.1%	4.2%	19,726— 14.1%	4.0%	+$ 1,859— 9.4%
Inventory	75,336— 52.5%	14.4%	72,253— 51.7%	14.6%	+$ 3,083— 4.3%
Total current assets	$118,024— 82.3%	22.7%	$111,446— 79.7%	22.5%	+$ 6,578— 5.9%
Fixed assets					
Fixtures and equipment and leasehold improvements (net after reserve for depreciation)	17,981— 12.5%	3.5%	18,463— 13.2%	3.7%	−$ 482— 2.6%
Other assets					
Prepaid expenses, deposits, etc.	7,394— 5.2%	1.4%	9,882— 7.1%	2.0%	−$ 2,488—25.2%
Total assets*	$143,399—100.0%	27.6%	$139,791—100.0%	28.2%	+$ 3,608— 2.6%
Liabilities					
Current and accrued liabilities					
Accounts payable	$ 21,224— 14.8%	4.1%	$ 20,442— 14.6%	4.1%	+$ 782— 3.8%
Notes payable (within one year)	7,160— 5.0%	1.4%	7,456— 5.3%	1.5%	−$ 296— 4.0%
Accrued expenses and other liabilities	5,214— 3.6%	1.0%	5,753— 4.1%	1.2%	−$ 539— 9.4%
Total current and accrued liabilities	$ 33,598— 23.4%	6.5%	$ 33,651— 24.0%	6.8%	−$ 53— 0.2%
Long-term liabilities					
Notes payable (later than one year)	25,469— 17.7%	4.9%	26,232— 18.8%	5.3%	−$ 763— 2.9%
Total liabilities	$ 59,067— 41.1%	11.4%	$ 59,883— 42.8%	12.1%	−$ 816— 1.4%
Net Worth	84,332— 58.9%	16.2%	79,908— 57.2%	16.1%	+$ 4,424— 5.5%
Total liabilities and net worth*	$143,399—100.0%	27.6%	$139,791—100.0%	28.2%	+$ 3,608— 2.6%
Net working capital	$ 84,527	16.2%	$ 77,795	15.7%	+$ 6,732— 8.7%
Sales	$520,685	100.0%	$495,342	100.0%	+$25,343— 5.1%
Purchases	$354,241	68.0%	$335,473	67.7%	+$18,768— 5.6%
Net profit (before taxes)	$ 20,529	3.9%	$ 15,845	3.2%	+$ 4,684—29.6%

Financial Ratios		
Current assets to current liabilities	3.5 times	3.3 times
Net sales to net worth	6.2 times	6.2 times
Net profit (before taxes) on net worth	24.3%	19.8%
Total debt to net worth	70.0%	74.9%

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

SALES VOLUME SUMMARY

A major objective of pharmacy management is to maximize sales. The pharmacy manager must also control operating and merchandising costs so that a satisfactory net profit and return on investment are realized. Since sales volume, operating expenses, and net profit vary among different types of pharmacies, careful consideration should be given to the kind of operation being studied when the data are used for comparative purposes.

Lilly Digest sales figures are adjusted to exclude refunds, returns, and allowances to customers. Sales and excise taxes are also deducted. The cost of goods sold includes freight-in and is reduced by supplier discounts.

Table 3 demonstrates the differences in selected operating statistics relative to total sales. As total sales increase, gross margin and total expenses decline overall as percents of sales. However, until sales volumes reach the highest categories, expenses decrease faster than gross margins. This suggests that increasing sales are associated with operational economies, which are likely to produce more profit for most pharmacies. Economies seem to be maximized at sales of a million dollars. The relationship between the total wage package (proprietor's/manager's salary plus employees' wages) and sales volume is quite different. As sales increase, the package decreases even though employees' wages tend to increase.

Gross Margin

As sales increase, gross margin decreases as a percent of sales. It is interesting that the ratio of prescription sales to total sales also falls, meaning that large-volume operations are associated with more front-end merchandising. In 1987, stores with sales of less than $200,000 reported prescription income of 81.5% of sales in less than 1,300 square feet and a gross margin of 34.3%. Operations with sales in excess of $1,500,000 reported prescription sales of 52.2% in over 6,000 square feet and a gross margin of 30.9%. These data suggest that the competitive margins on highly advertised general merchandise may be low enough that the gross margin for the entire operation is turned downward.

Expenses

Total expenses appear high as a percent of sales when annual sales are less than $200,000, particularly in newly opened stores. This is mainly because many of a new pharmacy's expenses are fixed and are incurred even though full sales potential has not yet been reached. However, as sales volume increases, expenses decline as a percent of sales.

Compensation

As sales volume increases, there is a substantial difference between the trends of employees' wages and proprietor's salary. Proprietor's salary as percent of sales decreases from over 13% in stores with less than $200,000 in sales to around 4% in stores with over $1,500,000 in sales. Employees' wages, on the other hand, increase steadily from 4.5% of sales in small volume operations to over 11% in larger operations. This sizable expenditure for employees' wages reflects the need for a larger staff to accommodate longer hours open and greater volume of business.

Miscellaneous Operating Costs

As a group, the remaining expenses move within a fairly narrow range and show no definitive trend relative to sales. Since these costs can account for one third of total expenses, each expense item should be controlled to ensure acceptable profit. In addition to the expenses detailed in Table 1, computer costs seem to be substantial in many pharmacies.

Rent

Generally, rent as percent of sales remains relatively constant as sales rise. However, rental dollars increase relative to sales. It is always worthwhile to contrast rent in terms of annual rent per square foot with annual sales per square foot. In newer operations, rent may appear to represent a high percent of sales because full sales potential has not yet been attained. This subject is discussed further on pages 28 and 29.

Net Profit

Net profit as a percent of sales increases steadily as sales volume rises, levels off when sales are midrange, and falls when sales are in the higher level categories. It is interesting to note that the midrange sales are substantial—from $450,000 to $1,000,000. A more detailed discussion on net profit may be found on page 12.

Inventory

Management's ability to control inventory, typically the largest asset in a pharmacy, can make the difference between a profitable business and one that operates at a loss. Effective inventory control usually means that a manager is able to accurately anticipate sales when purchasing merchandise, judge the effects of seasonal demand on purchasing variations, and control internal and external theft. Increasing sales volume while controlling inventory investment and providing optimal customer service is a key challenge to pharmacy management. One widely used measure of the effectiveness of an inventory control system is "turnover ratio," which refers to the number of times the average inventory is sold and replaced every year. Table 3 shows that, as sales volume increases, turnover ratio generally increases, an indication of effective inventory control.

Pharmacy Hours

Table 3 shows that the number of hours a pharmacy is open is directly related to sales volume. During 1987, the average pharmacy was open 60 hours per week. Pharmacies in the lower sales volume categories were open fewer than 54 hours per week, while stores with sales of $750,000 or more were open at least 65 hours per week. Pharmacy managers should analyze the number of hours open relative to the gross margin contribution of each hour. In some instances, competition and/or physician office hours should also be considered in this review. During 1987, the number of hours worked by the proprietor of the average LILLY DIGEST pharmacy increased from 48 to 54. In contrast, the number of hours worked by pharmacist employees tended to be

lower. These trends were especially evident in the sales volume categories of $300,000 and up. This may be a reflection of the reduced availability of part-time professional staff, increased productivity, shorter hours of operation, or simply a decision by many proprietors to reduce expenses by working more hours.

The average 1987 prescription charge was $15.37—up $1.01 (7%) from the previous year. The upward trend observed in the average prescription charge over the past several years is occasionally cited as evidence that prescription prices are rising. However, many factors contribute

Table 3 *Summary of sales volume in 1987*

Averages per Pharmacy	Total Sales Under $200,000 (75 Pharmacies)	Total Sales $200,000 to $250,000 (83 Pharmacies)
Sales		
Prescription	$127,617— 81.5%	$182,793— 80.1%
Other	29,006— 18.5%	45,383— 19.9%
Total	$156,623—100.0%	$228,176—100.0%
Cost of goods sold	102,952— 65.7%	149,305— 65.4%
Gross margin	$ 53,671— 34.3%	$ 78,871— 34.6%
Expenses		
Proprietor's or manager's salary	$ 20,517— 13.1%	$ 26,308— 11.5%
Employees' wages	7,010— 4.5%	14,071— 6.2%
Rent	6,290— 4.0%	6,887— 3.0%
Miscellaneous operating costs	18,780— 12.0%	27,256— 12.0%
Total expenses	$ 52,597— 33.6%	$ 74,522— 32.7%
Net profit (before taxes)	$ 1,074— 0.7%	$ 4,349— 1.9%
Proprietor's withdrawals	20,517— 13.1%	26,308— 11.5%
Total income of self-employed proprietor (before taxes on income and profits)	$ 21,591— 13.8%	$ 30,657— 13.4%
Value of inventory at cost and as a percent of sales		
Prescription	$ 22,460— 17.6%	$ 22,807— 12.5%
Other	8,095— 27.9%	12,052— 26.6%
Total	$ 30,555— 19.5%	$ 34,859— 15.3%
Annual rate of turnover of inventory	3.4 times	4.3 times
	sq. ft.	sq. ft.
Size of area and sales per square foot*	1,283 $121.27	1,249 $182.75
Rent per square foot*	$4.90	$5.51
Number of prescriptions dispensed		
New	5,091— 61.7%	7,474— 59.6%
Renewed	3,159— 38.3%	5,068— 40.4%
Total	8,250—100.0%	12,542—100.0%
Prescription charge	$15.47	$14.57
Number of hours per week		
Pharmacy was open	50 hours	51 hours
Worked by proprietor	46 hours	47 hours
Worked by employed pharmacist(s)	10 hours	10 hours

*Based on averages of pharmacies that reported all data

to the average prescription charge, including such variables as number of doses dispensed. Prescriptions dispensed per pharmacy hour open increase steadily as sales volume increases; the range extends from about three in the lower categories to about 18 in the highest. The number of prescriptions dispensed per pharmacist hour worked also increases, ranging from about three in the smaller sales volume operations to nine in stores with sales greater than $1,500,000.

Interestingly, the figures for prescription dispensed per pharmacy hour open and prescription filled per pharmacist hour

Total Sales $250,000 to $300,000 (96 Pharmacies)	Total Sales $300,000 to $350,000 (141 Pharmacies)	Total Sales $350,000 to $400,000 (130 Pharmacies)	Total Sales $400,000 to $450,000 (143 Pharmacies)
$217,067— 78.5%	$256,146— 79.1%	$306,832— 81.6%	$318,767— 75.1%
59,332— 21.5%	67,820— 20.9%	69,129— 18.4%	105,929— 24.9%
$276,399—100.0%	$323,966—100.0%	$375,961—100.0%	$424,696—100.0%
182,439— 66.0%	217,385— 67.1%	252,175— 67.1%	283,584— 66.8%
$ 93,960— 34.0%	$106,581— 32.9%	$123,786— 32.9%	$141,112— 33.2%
$ 30,394— 11.0%	$ 30,537— 9.4%	$ 32,610— 8.7%	$ 34,466— 8.1%
16,568— 6.0%	21,927— 6.8%	26,175— 7.0%	32,925— 7.8%
8,401— 3.0%	7,811— 2.4%	9,845— 2.6%	10,646— 2.5%
29,802— 10.8%	36,232— 11.2%	42,827— 11.3%	48,938— 11.5%
$ 85,165— 30.8%	$ 96,507— 29.8%	$111,457— 29.6%	$126,975— 29.9%
$ 8,795— 3.2%	$ 10,074— 3.1%	$ 12,329— 3.3%	$ 14,137— 3.3%
30,394— 11.0%	30,537— 9.4%	32,610— 8.7%	34,466— 8.1%
$ 39,189— 14.2%	$ 40,611— 12.5%	$ 44,939— 12.0%	$ 48,603— 11.4%
$ 27,787— 12.8%	$ 30,632— 12.0%	$ 36,225— 11.8%	$ 37,251— 11.7%
16,448— 27.7%	19,702— 29.1%	24,110— 34.9%	29,845— 28.2%
$ 44,235— 16.0%	$ 50,334— 15.5%	$ 60,335— 16.0%	$ 67,096— 15.8%
4.1 times	4.3 times	4.3 times	4.3 times
sq. ft 1,618 $170.70	sq. ft 1,578 $205.28	sq. ft 2,764 $136.11	sq. ft 2,356 $180.28
$5.19	$4.95	$3.56	$4.52
8,707— 62.0%	10,653— 62.9%	12,308— 65.7%	14,197— 66.3%
5,344— 38.0%	6,295— 37.1%	6,419— 34.3%	7,222— 33.7%
14,051—100.0%	16,948—100.0%	18,727—100.0%	21,419—100.0%
$15.45	$15.11	$16.38	$14.88
53 hours	54 hours	54 hours	55 hours
48 hours	54 hours	54 hours	50 hours
8 hours	12 hours	11 hours	17 hours

worked are quite similar until total sales reach the $500,000 mark. In pharmacies with sales in excess of $500,000 the prescription dispensed per hour open ratio trends rapidly upward from about 9 to over 16 as sales increase. The prescription dispensed per pharmacist hour worked ratio also increases, but within a narrow range of 8 to 9.

LILLY DIGEST data reveal that among the larger sales volume pharmacies, most of the floor area is designated to general merchandise selling space while no more than 600 sq. ft. is occupied by the prescription department. These high volume operations can be twice as large as the average LILLY DIGEST pharmacy, and their non-prescription inventory investment

Table 3 *Summary of sales volume in 1987 (continued)*

Averages per Pharmacy	Total Sales $450,000 to $500,000 (134 Pharmacies)	Total Sales $500,000 to $600,000 (210 Pharmacies)
Sales		
Prescription	$367,721— 77.6%	$388,964— 70.5%
Other	106,248— 22.4%	162,618— 29.5%
Total	$473,969—100.0%	$551,582—100.0%
Cost of goods sold	318,346— 67.2%	369,696— 67.0%
Gross margin	$155,623— 32.8%	$181,886— 33.0%
Expenses		
Proprietor's or manager's salary	$ 36,717— 7.7%	$ 40,774— 7.4%
Employees' wages	38,039— 8.0%	45,852— 8.3%
Rent	11,277— 2.4%	13,082— 2.4%
Miscellaneous operating costs	49,321— 10.4%	61,651— 11.2%
Total expenses	$135,354— 28.5%	$161,359— 29.3%
Net profit (before taxes)	$ 20,269— 4.3%	$ 20,527— 3.7%
Proprietor's withdrawals	36,717— 7.7%	40,774— 7.4%
Total income of self-employed proprietor (before taxes on income and profits)	$ 56,986— 12.0%	$ 61,301— 11.1%
Value of inventory at cost and as a percent of sales		
Prescription	$ 39,624— 10.8%	$ 41,677— 10.7%
Other	30,841— 29.0%	39,216— 24.1%
Total	$ 70,465— 14.9%	$ 80,893— 14.7%
Annual rate of turnover of inventory	4.6 times	4.6 times
	sq. ft.	sq. ft.
Size of area and sales per square foot*	2,180 $217.52	2,448 $225.35
Rent per square foot*	$5.17	$5.34
Number of prescriptions dispensed		
New	16,205— 65.9%	16,017— 63.2%
Renewed	8,383— 34.1%	9,338— 36.8%
Total	24,588—100.0%	25,355—100.0%
Prescription charge	$14.96	$15.34
Number of hours per week		
Pharmacy was open	58 hours	59 hours
Worked by proprietor	58 hours	52 hours
Worked by employed pharmacist(s)	22 hours	27 hours

*Based on averages of pharmacies that reported all data

may be three times as large. Total inventory per square foot ranges from about $23 in operations with about $200,000 in sales, to $35 in operations that have $500,000 in annual sales, to over $45 in operations with over $1,000,000 in sales. It should be noted that sales per square foot in these large sales volume stores are the highest.

One factor that may contribute to the greater output of such high volume operations is the increased use of technicians and advanced technology, such as computer and point-of-sale equipment. Fuller utilization of pharmacist time may be accomplished in these larger operations because more prescriptions are available to dispense.

Total Sales $600,000 to $750,000 (233 Pharmacies)	Total Sales $750,000 to $1,000,000 (259 Pharmacies)	Total Sales $1,000,000 to $1,500,000 (204 Pharmacies)	Total Sales over $1,500,000 (98 Pharmacies)
$475,201— 70.7%	$594,336— 69.0%	$ 702,240— 58.3%	$1,103,392— 52.2%
197,066— 29.3%	266,870— 31.0%	502,976— 41.7%	1,012,225— 47.8%
$672,267—100.0%	$861,206—100.0%	$1,205,216—100.0%	$2,115,617—100.0%
452,881— 67.4%	583,909— 67.8%	833,361— 69.1%	1,462,081— 69.1%
$219,386— 32.6%	$277,297— 32.2%	$ 371,855— 30.9%	$ 653,536— 30.9%
$ 44,893— 6.7%	$ 51,147— 5.9%	$ 55,280— 4.6%	$ 86,168— 4.1%
59,451— 8.8%	83,533— 9.7%	127,290— 10.6%	246,661— 11.7%
15,315— 2.3%	20,324— 2.4%	28,323— 2.4%	42,342— 2.0%
68,570— 10.2%	90,782— 10.5%	127,130— 10.5%	223,903— 10.6%
$188,229— 28.0%	$245,786— 28.5%	$ 338,023— 28.1%	$ 599,074— 28.4%
$ 31,157— 4.6%	$ 31,511— 3.7%	$ 33,832— 2.8%	$ 54,462— 2.5%
44,893— 6.7%	51,147— 5.9%	55,280— 4.6%	86,168— 4.1%
$ 76,050— 11.3%	$ 82,658— 9.6%	$ 89,112— 7.4%	$ 140,630— 6.6%
$ 50,865— 10.7%	$ 58,097— 9.8%	$ 66,147— 9.4%	$ 102,049— 9.2%
41,818— 21.2%	56,792— 21.3%	100,639— 20.0%	177,511— 17.5%
$ 92,683— 13.8%	$114,889— 13.3%	$ 166,786— 13.8%	$ 279,560— 13.2%
5.0 times	5.2 times	5.2 times	5.3 times
sq. ft. 2,846 $236.24	sq. ft. 3,252 $264.76	sq. ft. 4,572 $263.17	sq. ft. 6,162 $345.75
$5.38	$6.25	$6.19	$6.87
19,260— 62.4%	23,849— 62.0%	27,009— 59.6%	45,006— 62.4%
11,583— 37.6%	14,610— 38.0%	18,339— 40.4%	27,066— 37.6%
30,843—100.0%	38,459—100.0%	45,348—100.0%	72,072—100.0%
$15.41	$15.45	$15.49	$15.31
61 hours	65 hours	70 hours	78 hours
56 hours	53 hours	60 hours	63 hours
31 hours	41 hours	53 hours	91 hours

PRESCRIPTION ACTIVITY

The prescription department has grown steadily in importance to the average community pharmacy over the past two decades. Prescription revenue increased from 43.2% of total sales in 1968 to 66.5% in 1987. This suggests that the economic health of the average community pharmacy is closely linked to a strong and growing professional area.

Table 4 depicts operating data according to daily prescription activity. As expected, as daily prescription activity increases, total sales also advance. Total expenses, especially proprietor's salary, tend to decline percentagewise as daily prescription activity increases. On the other hand, employees' wages rise but not as sharply as the proprietor's salary drops. Overall, total wage package (proprietor's salary and employees' wages) moves in a narrow range across all categories, from 16.9% in the low range to 15.2% in the high range.

Daily prescription activity has traditionally been determined by dividing annual prescriptions dispensed by 365 days. Recent DIGEST data show, however, that most pharmacies operate a six-day week, or 312 days annually. The impact of this discrepancy on Table 4 is to shift the midpoints of each category to the high side.

Pharmacist hours worked per week increase as daily prescription activity increases, with most managers adding a

Table 4 *Summary by number of prescriptions dispensed daily in 1987*

Averages per Pharmacy	Under 25 Prescriptions Daily (84 Pharmacies)	25 to 35 Prescriptions Daily (139 Pharmacies)	35 to 50 Prescriptions Daily (284 Pharmacies)	50 to 60 Prescriptions Daily (227 Pharmacies)
Sales				
Prescription	$160,743— 63.8%	$186,576— 61.0%	$249,342— 65.9%	$325,895— 66.4%
Other	91,247— 36.2%	119,333— 39.0%	129,267— 34.1%	165,021— 33.6%
Total	$251,990—100.0%	$305,909—100.0%	$378,609—100.0%	$490,916—100.0%
Cost of goods sold	167,412— 66.4%	202,083— 66.1%	252,329— 66.6%	328,700— 67.0%
Gross margin	$ 84,578— 33.6%	$103,826— 33.9%	$126,280— 33.4%	$162,216— 33.0%
Expenses				
Proprietor's or manager's salary	$ 23,183— 9.2%	$ 29,175— 9.5%	$ 32,329— 8.5%	$ 35,642— 7.3%
Employees' wages	19,281— 7.7%	23,770— 7.8%	28,889— 7.6%	39,638— 8.1%
Rent	9,232— 3.7%	9,714— 3.2%	10,124— 2.7%	13,486— 2.7%
Miscellaneous operating costs	29,655— 11.7%	34,337— 11.1%	43,897— 11.6%	54,773— 11.1%
Total expenses	$ 81,351— 32.3%	$ 96,996— 31.6%	$115,239— 30.4%	$143,539— 29.2%
Net profit (before taxes)	$ 3,227— 1.3%	$ 6,830— 2.3%	$ 11,041— 3.0%	$ 18,677— 3.8%
Proprietor's withdrawals	23,183— 9.2%	29,175— 9.5%	32,329— 8.5%	35,642— 7.3%
Total income of self-employed proprietor (before taxes on income and profits)	$ 26,410— 10.5%	$ 36,005— 11.8%	$ 43,370— 11.5%	$ 54,319— 11.1%
Value of inventory at cost and as a percent of sales				
Prescription	$ 22,862— 14.2%	$ 25,896— 13.9%	$ 31,513— 12.6%	$ 38,608— 11.8%
Other	23,757— 26.0%	27,392— 23.0%	32,352— 25.0%	$ 38,588— 23.4%
Total	$ 46,619— 18.5%	$ 53,288— 17.4%	$ 63,865— 16.9%	$ 77,196— 15.7%
Annual rate of turnover of inventory	3.4 times	3.8 times	4.0 times	4.3 times
	sq. ft.	sq. ft.	sq. ft.	sq. ft.
Size of area and sales per square foot*	1,770 $145.81	2,157 $148.24	2,386 $163.86	2,520 $204.74
Rent per square foot*	$5.22	$4.50	$4.24	$5.35
Number of prescriptions dispensed				
New	4,119— 63.7%	6,644— 60.4%	9,659— 62.0%	13,208— 66.7%
Renewed	2,351— 36.3%	4,363— 39.6%	5,923— 38.0%	6,595— 33.3%
Total	6,470—100.0%	11,007—100.0%	15,582—100.0%	19,803—100.0%
Prescription charge	$24.85	$16.95	$16.00	$16.46
Number of hours per week				
Pharmacy was open	55 hours	54 hours	55 hours	57 hours
Worked by proprietor	62 hours	50 hours	52 hours	54 hours
Worked by employed pharmacist(s)	14 hours	13 hours	13 hours	18 hours

*Based on averages of pharmacies that reported all data

full-time pharmacist when activity reaches 100 prescriptions per day. As prescription activity increases, inventory investment declines as a percent of sales. It is not surprising to observe that, as a pharmacy's prescription business grows, its physical size and rent expense also increase. Interestingly, the split between new and renewed prescriptions dispensed moves in a very narrow range as prescription volume increases. Renewed prescription activity seems to be highest in larger operations, which may suggest that these stores are mature and the customer base is more stable than in growing pharmacies.

Most state laws require that a registered pharmacist be present whenever the prescription department is open for business, even though the prescription workload may not warrant it. Therefore, the number of prescriptions dispensed per available pharmacist hour may be low in pharmacies with limited prescription volume. With increasing sales and prescription activity, management may devote more time to nonprescription tasks, which results in the need for additional professional staff "behind the counter." Pharmacists in the highest daily prescription category filled about 15 prescriptions per hour worked. This level of productivity is probably associated with having more prescriptions available to dispense, as well as making use of automated equipment and pharmacy technicians.

60 to 75 Prescriptions Daily (261 Pharmacies)	75 to 100 Prescriptions Daily (353 Pharmacies)	100 to 125 Prescriptions Daily (194 Pharmacies)	125 to 150 Prescriptions Daily (113 Pharmacies)	150 to 200 Prescriptions Daily (88 Pharmacies)	Over 200 Prescriptions Daily (63 Pharmacies)
$378,244— 65.9%	$475,204— 66.9%	$617,956— 64.8%	$ 740,972— 69.7%	$ 862,171— 66.4%	$1,333,183— 68.9%
195,905— 34.1%	235,244— 33.1%	335,817— 35.2%	322,712— 30.3%	436,028— 33.6%	602,887— 31.1%
$574,149—100.0%	$710,448—100.0%	$953,773—100.0%	$1,063,684—100.0%	$1,298,199—100.0%	$1,936,070—100.0%
389,104— 67.8%	481,143— 67.7%	655,014— 68.7%	723,681— 68.0%	890,377— 68.6%	1,347,968— 69.6%
$185,045— 32.2%	$229,305— 32.3%	$298,759— 31.3%	$ 340,003— 32.0%	$ 407,822— 31.4%	$ 588,102— 30.4%
$ 39,214— 6.8%	$ 45,392— 6.4%	$ 54,655— 5.7%	$ 57,225— 5.4%	$ 57,008— 4.4%	$ 85,806— 4.4%
48,809— 8.5%	65,486— 9.2%	94,066— 9.9%	112,164— 10.5%	145,675— 11.2%	208,189— 10.8%
15,316— 2.7%	17,419— 2.5%	22,082— 2.3%	21,318— 2.0%	22,096— 1.7%	30,570— 1.6%
62,271— 10.8%	77,988— 11.0%	97,144— 10.1%	112,034— 10.6%	129,205— 10.0%	195,314— 10.0%
$165,610— 28.8%	$206,285— 29.1%	$267,947— 28.0%	$ 302,741— 28.5%	$ 353,984— 27.3%	$ 519,879— 26.8%
$ 19,435— 3.4%	$ 23,020— 3.2%	$ 30,812— 3.3%	$ 37,262— 3.5%	$ 53,838— 4.1%	$ 68,223— 3.6%
39,214— 6.8%	45,392— 6.4%	54,655— 5.7%	57,225— 5.4%	57,008— 4.4%	85,806— 4.4%
$ 58,649— 10.2%	$ 68,412— 9.6%	$ 85,467— 9.0%	$ 94,487— 8.9%	$ 110,846— 8.5%	$ 154,029— 8.0%
$ 42,613— 11.3%	$ 47,857— 10.1%	$ 61,249— 9.9%	$ 69,251— 9.3%	$ 75,600— 8.8%	$ 118,188— 8.9%
43,391— 22.1%	50,255— 21.4%	69,924— 20.8%	74,170— 23.0%	81,472— 18.7%	98,135— 16.3%
$ 86,004— 15.0%	$ 98 112— 13.8%	$131,173— 13.8%	$ 143,421— 13.5%	$ 157,072— 12.1%	$ 216,323— 11.2%
4.6 times	5.0 times	5.1 times	5.3 times	5.8 times	6.4 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.
2,778 $216.61	3,031 $246.98	3,545 $279.14	2,938 $385.98	3,384 $411.73	4,742 $443.52
$5.51	$5.75	$6.23	$7.26	$6.53	$6.45
15,843— 65.3%	19,552— 62.6%	24,672— 62.1%	29,187— 60.0%	36,696— 60.1%	59,197— 61.7%
8,435— 34.7%	11,669— 37.4%	15,062— 37.9%	19,478— 40.0%	24,334— 39.9%	36,786— 38.3%
24,278—100.0%	31,221—100.0%	39,734—100.0%	48,665—100.0%	61,030—100.0%	95,983—100.0%
$15.58	$15.22	$15.55	$15.23	$14.13	$13.89
60 hours	63 hours	65 hours	65 hours	68 hours	73 hours
50 hours	55 hours	57 hours	54 hours	60 hours	65 hours
26 hours	38 hours	42 hours	47 hours	66 hours	75 hours

NET PROFIT

The level of service that patients expect from a community pharmacy can be maintained only as long as sufficient profit is generated by the operation. Profit is needed for working capital requirements, return to investors, and retained earnings. Operations that continually operate at a loss usually are less attractive to lenders, and may eventually fail.

Table 5 indicates that 14% of all pharmacies reporting during 1987 operated at a loss—down from 15% in 1986 and 16% in 1985. On the other hand, 13% of reporting stores operated at a profit in excess of 10%—up from the 11% and 10% reported in 1986 and 1985 respectively. Overall, the data in Table 5 indicate an improvement in profitability among reporting operations for 1987 as compared with statistics for 1986.

Turnover Comparison

Table 6 presents selected operating statistics from two groups of pharmacies—one with a high rate of turnover and another with low turnover. The figures show that by controlling inventory investment and maintaining a higher turnover rate, pharmacy owners may improve total income. Pharmacies in the high turnover group stocked smaller inventories than those with low turnover; however, the cost of goods sold was greater in the high turnover group. This greater cost resulted in a lower gross margin; but lower gross margin was more than offset by lower total expenses. Because of this expense control, pharmacies with the higher turnover rate produced a higher total income.

Break-Even Point

The calculated break-even point for the 1,806 pharmacies submitting figures to the 1988 LILLY DIGEST was recorded at 9.6 months, when 80.2% of total sales had been attained. At the break-even point, all fixed costs of the operation for the year are covered as are variable costs up to that time. All pharmacy costs are considered fixed except employees' wages, advertising, bad debt, and miscellaneous expenses. Beyond the break-even point, sales are reduced only by the additional variable costs incurred. The remainder is net profit. The break-even points for selected years are shown in terms of both time and sales. The break-even points for 1988 survey participants improved somewhat over recent years, to about the 1973 level.

Break-Even Point

	Months	Percent of sales
1988	9.6	80.2%
1983	10.0	83.3%
1978	9.9	82.3%
1973	9.7	80.5%

Table 6 *Turnover comparison (percent of sales)*

	High Turnover (309 Pharmacies)	Low Turnover (361 Pharmacies)
Total sales	100.0%	100.0%
Cost of goods sold	68.0%	66.0%
Gross margin	32.0%	34.0%
Employees' wages	8.5%	10.2%
Rent and miscellaneous expenses	11.8%	15.0%
Total expenses (less proprietor's salary)	20.3%	25.2%
Total income (proprietor's salary plus net profit)	11.7%	8.8%
Total inventory	7.2%	21.6%
Inventory turnover	9.4 times	3.0 times

Table 5 *Net profit according to sales volume*

	Under $200,000	$200,000-$250,000	$250,000-$300,000	$300,000-$350,000	$350,000-$400,000	$400,000-$450,000	$450,000-$500,000	$500,000-$600,000	$600,000-$750,000	$750,000-$1,000,000	Over $1,000,000	This Year	Last Year
Number of Pharmacies	75	83	96	141	130	143	134	210	233	259	302	1,806	1,245
Net Profit as a Percent of Sales													
Operating at a loss	44%	27%	18%	13%	17%	20%	17%	12%	8%	7%	11%	14%	15%
Less than 2%	8	22	23	22	23	21	18	17	21	22	25	21	23
2% to 5%	21	20	21	26	22	19	23	30	27	36	38	28	30
5% to 7.5%	9	6	13	17	17	16	11	17	16	17	12	15	13
7.5% to 10%	9	12	9	7	8	8	14	11	12	7	5	9	8
10% and over	9	13	16	15	13	16	17	13	16	11	9	13	11

THE HEART OF THE LILLY DIGEST

This section contains 29 categories of operating averages arranged according to both annual sales volume and daily prescription activity.
A generally accepted accounting format is used to display the operating data so that comparisons can be made with any pharmacy's figures.
Page 37 contains a work sheet that may be useful for this purpose.

Table A
Sales Under $350,000

Averages per Pharmacy	Total Sales Under $200,000: Under 25 Prescriptions Daily (43 Pharmacies)		Total Sales Under $200,000: Over 25 Prescriptions Daily (32 Pharmacies)	
Sales				
Prescription	$104,520	75.1%	$158,652	88.2%
Other	34,726	24.9%	21,322	11.8%
Total	$139,246	100.0%	$179,974	100.0%
Cost of goods sold	89,941	64.6%	120,435	66.9%
Gross margin	$ 49,305	35.4%	$ 59,539	33.1%
Expenses				
Proprietor's or manager's salary	$ 17,700	12.7%	$ 24,303	13.5%
Employees' wages	7,606	5.5%	6,210	3.5%
Rent	6,213	4.5%	6,394	3.6%
Heat, light, and power	1,492	1.1%	1,353	0.8%
Accounting, legal, and other professional fees	524	0.4%	1,022	0.6%
Taxes (except on buildings, income, and profit) and licenses	1,842	1.3%	1,791	1.0%
Insurance (except on buildings)	1,604	1.2%	2,208	1.2%
Interest paid	1,104	0.8%	1,738	1.0%
Repairs	507	0.4%	547	0.3%
Delivery	667	0.5%	682	0.4%
Advertising	1,939	1.4%	1,866	1.0%
Depreciation (except on buildings)	1,681	1.2%	2,314	1.3%
Bad debts charged off	74	0.1%	240	0.1%
Telephone	989	0.7%	1,262	0.7%
Miscellaneous	5,248	3.8%	5,244	2.9%
		12.7%		11.3%
Total expenses	$ 49,190	35.3%	$ 57,174	31.8%
Net profit (before taxes)	$ 115	0.1%	$ 2,365	1.3%
Proprietor's withdrawals	17,700	12.7%	24,303	13.5%
Total income of self-employed proprietor (before taxes on income and profits)	$ 17,815	12.8%	$ 26,668	14.8%
Value of inventory at cost and as a percent of sales				
Prescription	$ 21,476	20.5%	$ 23,783	15.0%
Other	11,625	33.5%	3,351	15.7%
Total	$ 33,101	23.8%	$ 27,134	15.1%
Annual rate of turnover of inventory	2.8 times		4.4 times	
Size of area and sales per square foot*	sq. ft.		sq. ft.	
Prescription	310	$336.91	366	$431.89
Other	921	36.80	990	21.98
Total	1,231	$112.37	1,356	$132.72
Number of prescriptions dispensed				
New	3,703	59.4%	6,954	63.5%
Renewed	2,533	40.6%	4,002	36.5%
Total	6,236	100.0%	10,956	100.0%
Prescription charge	$16.76		$14.48	
Number of hours per week				
Pharmacy was open	52 hours		49 hours	
Worked by proprietor	49 hours		43 hours	
Worked by employed pharmacist(s)	11 hours		8 hours	
Sales and prescription activity per pharmacy hours open				
Prescription sales	$38.65		$62.27	
Other sales	$12.84		$8.37	
Prescriptions dispensed	2.3		4.3	

*Based on averages of pharmacies that reported all data

Total Sales	Total Sales	Total Sales	
$200,000-$250,000	$250,000-$300,000	$300,000-$350,000	
(83 Pharmacies)	(96 Pharmacies)	Under 50 Prescriptions Daily (90 Pharmacies)	Over 50 Prescriptions Daily (51 Pharmacies)
$182,793— 80.1%	$217,067— 78.5%	$235,459— 72.8%	$292,653— 90.0%
45,383— 19.9%	59,332— 21.5%	87,782— 27.2%	32,594— 10.0%
$228,176—100.0%	$276,399—100.0%	$323,241—100.0%	$325,247—100.0%
149,305— 65.4%	182,439— 66.0%	216,697— 67.0%	218,599— 67.2%
$ 78,871— 34.6%	$ 93,960— 34.0%	$106,544— 33.0%	$106,648— 32.8%
$ 26,308— 11.5%	$ 30,394— 11.0%	$ 31,319— 9.7%	$ 29,157— 9.0%
14,071— 6.2%	16,568— 6.0%	21,586— 6.7%	22,529— 6.9%
6,887— 3.0%	8,401— 3.0%	8,055— 2.5%	7,380— 2.3%
1,912— 0.8%	2,654— 1.0%	2,658— 0.8%	2,413— 0.7%
1,261— 0.6%	1,624— 0.6%	1,657— 0.5%	1,737— 0.5%
2,944— 1.3%	2,992— 1.1%	3,961— 1.2%	3,963— 1.2%
2,760— 1.2%	2,974— 1.1%	3,201— 1.0%	2,882— 0.9%
2,369— 1.0%	2,856— 1.0%	3,134— 1.0%	2,290— 0.7%
988— 0.4%	1,284— 0.5%	1,152— 0.4%	1,539— 0.5%
817— 0.4%	1,346— 0.5%	1,091— 0.3%	1,189— 0.4%
2,576— 1.1%	2,489— 0.9%	2,807— 0.9%	2,428— 0.7%
3,712— 1.6%	3,154— 1.1%	5,081— 1.6%	5,970— 1.8%
336— 0.1%	456— 0.2%	492— 0.2%	1,825— 0.6%
1,499— 0.7%	1,429— 0.5%	1,654— 0.5%	1,836— 0.6%
6,082— 2.7%	6,544— 2.4%	8,535— 2.6%	9,587— 2.9%
11.9%	10.8%	11.0%	11.6%
$ 74,522— 32.7%	$ 85,165— 30.8%	$ 96,383— 29.8%	$ 96,725— 29.7%
$ 4,349— 1.9%	$ 8,795— 3.2%	$ 10,161— 3.1%	$ 9,923— 3.0%
26,308— 11.5%	30,394— 11.0%	31,319— 9.7%	29,157— 9.0%
$ 30,657— 13.4%	$ 39,189— 14.2%	$ 41,480— 12.8%	$ 39,080— 12.0%
$ 22,807— 12.5%	$ 27,787— 12.8%	$ 28,494— 12.1%	$ 34,405— 11.8%
12,052— 26.6%	16,448— 27.7%	24,801— 28.3%	10,703— 32.8%
$ 34,859— 15.3%	$ 44,235— 16.0%	$ 53,295— 16.5%	$ 45,108— 13.9%
4.3 times	4.1 times	4.0 times	4.9 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.
327 $559.56	382 $568.03	331 $718.55	573 $510.90
922 49.11	1,236 48.07	1,383 61.78	769 41.95
1,249 $182.75	1,618 $170.70	1,714 $188.75	1,342 $242.02
7,474— 59.6%	8,707— 62.0%	7,946— 54.6%	15,432— 72.8%
5,068— 40.4%	5,344— 38.0%	6,596— 45.4%	5,762— 27.2%
12,542—100.0%	14,051—100.0%	14,542—100.0%	21,194—100.0%
$14.57	$15.45	$16.19	$13.81
51 hours	53 hours	55 hours	53 hours
47 hours	48 hours	59 hours	51 hours
10 hours	8 hours	12 hours	14 hours
$68.93	$78.76	$82.33	$106.19
$17.11	$21.53	$30.69	$11.83
4.7	5.1	5.1	7.7

Table B
Sales $350,000–$500,000

Averages per Pharmacy	Total Sales $350,000-$400,000 Under 50 Prescriptions Daily (60 Pharmacies)		Over 50 Prescriptions Daily (70 Pharmacies)	
Sales				
Prescription	$284,761	76.0%	$325,749	86.4%
Other	89,806	24.0%	51,406	13.6%
Total	$374,567	100.0%	$377,155	100.0%
Cost of goods sold	249,303	66.6%	254,637	67.5%
Gross margin	$125,264	33.4%	$122,518	32.5%
Expenses				
Proprietor's or manager's salary	$ 30,567	8.2%	$ 34,362	9.1%
Employees' wages	29,157	7.8%	23,620	6.3%
Rent	9,643	2.6%	10,018	2.7%
Heat, light, and power	4,043	1.1%	2,392	0.6%
Accounting, legal, and other professional fees	1,916	0.5%	1,544	0.4%
Taxes (except on buildings, income, and profit) and licenses	5,205	1.4%	4,532	1.2%
Insurance (except on buildings)	4,323	1.2%	4,648	1.2%
Interest paid	4,293	1.1%	3,234	0.9%
Repairs	2,383	0.6%	2,247	0.6%
Delivery	1,779	0.5%	1,236	0.3%
Advertising	4,509	1.2%	2,743	0.7%
Depreciation (except on buildings)	5,310	1.4%	5,065	1.3%
Bad debts charged off	881	0.2%	592	0.2%
Telephone	1,634	0.4%	1,812	0.5%
Miscellaneous	9,049	2.4%	10,639	2.8%
		12.1%		10.8%
Total expenses	$114,692	30.6%	$108,684	28.8%
Net profit (before taxes)	$ 10,572	2.8%	$ 13,834	3.7%
Proprietor's withdrawals	30,567	8.2%	34,362	9.1%
Total income of self-employed proprietor (before taxes on income and profits)	$ 41,139	11.0%	$ 48,196	12.8%
Value of inventory at cost and as a percent of sales				
Prescription	$ 33,750	11.9%	$ 38,347	11.8%
Other	38,876	43.3%	11,452	22.3%
Total	$ 72,626	19.4%	$ 49,799	13.2%
Annual rate of turnover of inventory	3.5 times		5.3 times	
Size of area and sales per square foot*	sq. ft.		sq. ft.	
Prescription	324	$880.59	410	$795.50
Other	3,426	26.13	1,498	34.27
Total	3,750	$ 99.88	1,908	$197.91
Number of prescriptions dispensed				
New	8,682	60.8%	15,417	68.4%
Renewed	5,594	39.2%	7,126	31.6%
Total	14,276	100.0%	22,543	100.0%
Prescription charge	$19.95		$14.45	
Number of hours per week				
Pharmacy was open	56 hours		52 hours	
Worked by proprietor	59 hours		52 hours	
Worked by employed pharmacist(s)	12 hours		10 hours	
Sales and prescription activity per pharmacy hour open				
Prescription sales	$97.79		$120.47	
Other sales	$30.84		$19.01	
Prescriptions dispensed	4.9		8.4	

*Based on averages of pharmacies that reported all data

Total Sales $400,000-$450,000		Total Sales $450,000-$500,000	
Under 50 Prescriptions Daily (36 Pharmacies)	Over 50 Prescriptions Daily (107 Pharmacies)	Under 75 Prescriptions Daily (86 Pharmacies)	Over 75 Prescriptions Daily (48 Pharmacies)
$255,726— 60.0%	$339,978— 80.2%	$340,713— 72.1%	$416,110— 87.4%
170,586— 40.0%	84,174— 19.8%	132,010— 27.9%	60,091— 12.6%
$426,312—100.0%	$424,152—100.0%	$472,723—100.0%	$476,201—100.0%
284,044— 66.6%	283,429— 66.8%	319,318— 67.5%	316,604— 66.5%
$142,268— 33.4%	$140,723— 33.2%	$153,405— 32.5%	$159,597— 33.5%
$ 27,977— 6.6%	$ 36,649— 8.6%	$ 35,390— 7.5%	$ 39,094— 8.2%
37,563— 8.8%	31,364— 7.4%	38,961— 8.2%	36,387— 7.6%
11,441— 2.7%	10,379— 2.4%	11,770— 2.5%	10,395— 2.2%
4,867— 1.1%	3,728— 0.9%	3,973— 0.8%	3,181— 0.7%
1,749— 0.4%	2,066— 0.5%	2,150— 0.5%	1,962— 0.4%
6,825— 1.6%	5,892— 1.4%	5,715— 1.2%	5,272— 1.1%
4,993— 1.2%	4,585— 1.1%	5,851— 1.2%	5,090— 1.1%
4,275— 1.0%	3,946— 0.9%	3,555— 0.8%	2,437— 0.5%
1,842— 0.4%	2,383— 0.6%	1,992— 0.4%	1,645— 0.3%
1,218— 0.3%	1,563— 0.4%	1,507— 0.3%	1,651— 0.3%
4,873— 1.1%	4,012— 0.9%	4,516— 1.0%	3,645— 0.8%
7,411— 1.7%	6,203— 1.5%	6,811— 1.4%	6,043— 1.3%
951— 0.2%	884— 0.2%	765— 0.2%	1,031— 0.2%
2,573— 0.6%	1,738— 0.4%	2,279— 0.5%	2,378— 0.5%
12,108— 2.8%	10,341— 2.4%	12,434— 2.6%	10,995— 2.3%
12.6%	11.2%	10.9%	9.5%
$130,666— 30.7%	$125,733— 29.6%	$137,669— 29.1%	$131,206— 27.6%
$ 11,602— 2.7%	$ 14,990— 3.6%	$ 15,736— 3.3%	$ 28,391— 6.0%
27,977— 6.6%	36,649— 8.6%	35,390— 7.5%	39,094— 8.2%
$ 39,579— 9.3%	$ 51,639— 12.2%	$ 51,126— 10.8%	$ 67,485— 14.2%
$ 33,958— 13.3%	$ 38,358— 11.3%	$ 38,442— 11.3%	$ 41,741— 10.0%
40,590— 23.8%	26,231— 31.2%	35,287— 26.7%	22,875— 38.1%
$ 74,548— 17.5%	$ 64,589— 15.2%	$ 73,729— 15.6%	$ 64,616— 13.6%
3.9 times	4.5 times	4.4 times	5.0 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.
389 $655.28	466 $733.61	395 $863.42	422 $987.65
2,923 58.39	1,552 53.33	2,080 63.60	1,182 50.53
3,312 $128.52	2,018 $210.32	2,475 $191.20	1,604 $296.83
9,156— 62.2%	15,893— 67.1%	13,635— 65.9%	20,808— 65.9%
5,566— 37.8%	7,779— 32.9%	7,053— 34.1%	10,766— 34.1%
14,722—100.0%	23,672—100.0%	20,688—100.0%	31,574—100.0%
$17.37	$14.36	$16.47	$13.18
57 hours	54 hours	59 hours	55 hours
48 hours	51 hours	54 hours	64 hours
23 hours	15 hours	25 hours	16 hours
$86.28	$121.07	$111.05	$145.49
$57.55	$ 29.98	$43.03	$ 21.01
5.0	8.4	6.7	11.0

Table C
Sales $500,000–$750,000

Averages per Pharmacy	Total Sales $500,000-$600,000	
	Under 50 Prescriptions Daily (34 Pharmacies)	50 to 75 Prescriptions Daily (91 Pharmacies)
Sales		
Prescription	$271,080— 49.5%	$361,273— 65.8%
Other	276,946— 50.5%	187,923— 34.2%
Total	$548,026—100.0%	$549,196—100.0%
Cost of goods sold	362,022— 66.1%	368,830— 67.2%
Gross margin	$186,004— 33.9%	$180,366— 32.8%
Expenses		
Proprietor's or manager's salary	$ 39,302— 7.2%	$ 38,297— 7.0%
Employees' wages	49,187— 9.0%	45,134— 8.2%
Rent	13,945— 2.5%	12,208— 2.2%
Heat, light, and power	4,734— 0.9%	5,395— 1.0%
Accounting, legal, and other professional fees	2,551— 0.5%	2,500— 0.5%
Taxes (except on buildings, income, and profit) and licenses	6,237— 1.1%	7,769— 1.4%
Insurance (except on buildings)	6,178— 1.1%	6,620— 1.2%
Interest paid	4,586— 0.8%	5,932— 1.1%
Repairs	2,437— 0.4%	2,190— 0.4%
Delivery	1,995— 0.4%	1,838— 0.3%
Advertising	6,107— 1.1%	6,648— 1.2%
Depreciation (except on buildings)	5,940— 1.1%	8,319— 1.5%
Bad debts charged off	825— 0.2%	864— 0.2%
Telephone	2,365— 0.4%	1,993— 0.4%
Miscellaneous	18,827— 3.4%	14,952— 2.7%
	11.5%	11.8%
Total expenses	$165,216— 30.1%	$160,659— 29.3%
Net profit (before taxes)	$ 20,788— 3.8%	$ 19,707— 3.6%
Proprietor's withdrawals	39,302— 7.2%	38,297— 7.0%
Total income of self-employed proprietor (before taxes on income and profits)	$ 60,090— 11.0%	$ 58,004— 10.6%
Value of inventory at cost and as a percent of sales		
Prescription	$ 34,725— 12.8%	$ 40,237— 11.1%
Other	61,230— 22.1%	48,157— 25.6%
Total	$ 95,955— 17.5%	$ 88,394— 16.1%
Annual rate of turnover of inventory	3.8 times	4.2 times
Size of area and sales per square foot*	sq. ft.	sq. ft.
Prescription	377 $723.60	363 $1,002.04
Other	2,954 93.20	2,424 76.68
Total	3,331 $164.64	2,787 $ 197.08
Number of prescriptions dispensed		
New	9,457— 68.0%	13,650— 60.8%
Renewed	4,447— 32.0%	8,794— 39.2%
Total	13,904—100.0%	22,444—100.0%
Prescription charge	$19.50	$16.10
Number of hours per week		
Pharmacy was open	63 hours	60 hours
Worked by proprietor	57 hours	51 hours
Worked by employed pharmacist(s)	23 hours	19 hours
Sales and prescription activity per pharmacy hour open		
Prescription sales	$82.75	$115.79
Other sales	$84.54	$ 60.23
Prescriptions dispensed	4.2	7.2

*Based on averages of pharmacies that reported all data

Total Sales			
$600,000-$750,000			
Over 75 Prescriptions Daily (85 Pharmacies)	Under 75 Prescriptions Daily (76 Pharmacies)	75 to 100 Prescriptions Daily (98 Pharmacies)	Over 100 Prescriptions Daily (59 Pharmacies)
$465,764— 83.8%	$357,156— 53.6%	$504,971— 74.8%	$577,810— 85.5%
89,796— 16.2%	308,730— 46.4%	170,209— 25.2%	97,836— 14.5%
$555,560—100.0%	$665,886—100.0%	$675,180—100.0%	$675,646—100.0%
373,692— 67.3%	441,571— 66.3%	457,833— 67.8%	459,224— 68.0%
$181,868— 32.7%	$224,315— 33.7%	$217,347— 32.2%	$216,422— 32.0%
$ 44,015— 7.9%	$ 41,580— 6.2%	$ 45,025— 6.7%	$ 48,941— 7.2%
45,286— 8.2%	63,723— 9.6%	60,017— 8.9%	53,007— 7.8%
13,671— 2.5%	19,699— 3.0%	13,887— 2.1%	12,040— 1.8%
3,335— 0.6%	5,841— 0.9%	4,742— 0.7%	3,322— 0.5%
2,195— 0.4%	3,093— 0.5%	2,697— 0.4%	2,622— 0.4%
6,761— 1.2%	10,440— 1.6%	9,169— 1.4%	8,406— 1.2%
5,320— 1.0%	7,376— 1.1%	7,385— 1.1%	6,906— 1.0%
3,789— 0.7%	5,426— 0.8%	4,208— 0.6%	4,431— 0.7%
1,789— 0.3%	2,542— 0.4%	2,826— 0.4%	2,540— 0.4%
1,885— 0.3%	1,796— 0.3%	1,777— 0.3%	2,178— 0.3%
4,468— 0.8%	6,155— 0.9%	6,071— 0.9%	4,418— 0.7%
8,046— 1.4%	8,944— 1.3%	8,427— 1.2%	8,601— 1.3%
833— 0.1%	651— 0.1%	1,217— 0.2%	973— 0.1%
2,192— 0.4%	2,490— 0.4%	2,675— 0.4%	2,448— 0.4%
16,980— 3.1%	17,954— 2.7%	16,283— 2.4%	18,209— 2.7%
10.3%	10.9%	10.0%	9.6%
$160,565— 28.9%	$197,710— 29.7%	$186,406— 27.6%	$179,042— 26.5%
$ 21,303— 3.9%	$ 26,605— 4.0%	$ 30,941— 4.6%	$ 37,380— 5.6%
44,015— 7.9%	41,580— 6.2%	45,025— 6.7%	48,941— 7.2%
$ 65,318— 11.8%	$ 68,185— 10.2%	$ 75,966— 11.3%	$ 86,321— 12.8%
$ 45,999— 9.9%	$ 48,022— 13.4%	$ 48,750— 9.7%	$ 58,041— 10.0%
20,838— 23.2%	58,814— 19.0%	38,546— 22.6%	25,360— 25.9%
$ 66,837— 12.0%	$106,836— 16.0%	$ 87,296— 12.9%	$ 83,401— 12.3%
5.7 times	4.2 times	5.4 times	5.7 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.
425 $1097.67	393 $905.00	444 $1,137.54	571 $1,007.78
1,307 67.93	2,978 103.86	2,565 66.49	1,345 74.54
1,732 $ 320.60	3,371 $197.21	3,009 $ 224.70	1,916 $ 352.87
21,177— 64.1%	13,209— 62.6%	19,607— 62.7%	26,476— 62.0%
11,875— 35.9%	7,886— 37.4%	11,642— 37.3%	16,249— 38.0%
33,052—100.0%	21,095—100.0%	31,249—100.0%	42,725—100.0%
$14.09	$16.93	$16.16	$13.52
56 hours	63 hours	62 hours	59 hours
50 hours	61 hours	54 hours	55 hours
39 hours	27 hours	40 hours	23 hours
$159.95	$109.02	$156.63	$188.33
$ 30.84	$ 94.24	$ 52.79	$ 31.89
11.4	6.4	9.7	13.9

Table D
Sales $750,000–$1,000,000

Averages per Pharmacy	Total Sales $750,000-$1,000,000		Under 75 Prescriptions Daily (37 Pharmacies)		75 to 100 Prescriptions Daily (77 Pharmacies)	
Sales						
Prescription	$389,950	46.2%			$509,636	59.7%
Other	453,429	53.8%			343,936	40.3%
Total	$843,379	100.0%			$853,572	100.0%
Cost of goods sold	564,810	67.0%			578,792	67.8%
Gross margin	$278,569	33.0%			$274,780	32.2%
Expenses						
Proprietor's or manager's salary	$ 46,659	5.5%			$ 47,498	5.6%
Employees' wages	78,110	9.3%			85,846	10.1%
Rent	27,633	3.3%			21,957	2.6%
Heat, light, and power	7,148	0.8%			6,782	0.8%
Accounting, legal, and other professional fees	4,336	0.5%			4,805	0.6%
Taxes (except on buildings, income, and profit) and licenses	10,511	1.2%			11,840	1.4%
Insurance (except on buildings)	8,658	1.0%			8,089	0.9%
Interest paid	4,861	0.6%			5,017	0.6%
Repairs	4,687	0.6%			3,528	0.4%
Delivery	2,067	0.2%			1,935	0.2%
Advertising	9,212	1.1%			9,922	1.2%
Depreciation (except on buildings)	8,969	1.1%			8,616	1.0%
Bad debts charged off	906	0.1%			1,903	0.2%
Telephone	2,966	0.4%			2,957	0.3%
Miscellaneous	21,633	2.6%			33,987	4.0%
			10.2%			11.6%
Total expenses	$238,356	28.3%			$254,682	29.8%
Net profit (before taxes)	$ 40,213	4.8%			$ 20,098	2.3%
Proprietor's withdrawals	46,659	5.5%			47,498	5.6%
Total income of self-employed proprietor (before taxes on income and profits)	$ 86,872	10.3%			$ 67,596	7.9%
Value of inventory at cost and as a percent of sales						
Prescription	$ 45,388	11.6%			$ 53,634	10.5%
Other	79,192	17.5%			75,495	22.0%
Total	$124,580	14.8%			$129,129	15.1%
Annual rate of turnover of inventory	4.6 times				4.6 times	
Size of area and sales per square foot*	sq. ft.				sq. ft.	
Prescription	417	$ 931.51			476	$1,073.82
Other	3,314	136.08			3,508	97.72
Total	3,731	$ 225.04			3,984	$ 214.44
Number of prescriptions dispensed						
New	16,283	79.0%			19,278	60.1%
Renewed	4,318	21.0%			12,816	39.9%
Total	20,601	100.0%			32,094	100.0%
Prescription charge	$18.93				$15.88	
Number of hours per week						
Pharmacy was open	69 hours				70 hours	
Worked by proprietor	54 hours				54 hours	
Worked by employed pharmacist(s)	35 hours				45 hours	
Sales and prescription activity per pharmacy hour open						
Prescription sales	$108.68				$140.00	
Other sales	$126.37				$ 94.49	
Prescriptions dispensed	5.7				8.8	

*Based on averages of pharmacies that reported all data

100 to 125 Prescriptions Daily (79 Pharmacies)		Over 125 Prescriptions Daily (66 Pharmacies)	
$642,210	74.6%	$ 750,430	85.2%
218,242	25.4%	130,580	14.8%
$860,452	100.0%	$ 881,010	100.0%
583,525	67.8%	601,045	68.2%
$276,927	32.2%	$ 279,965	31.8%
$ 51,353	6.0%	$ 57,671	6.5%
84,456	9.8%	82,769	9.4%
18,537	2.2%	16,460	1.9%
5,585	0.6%	3,884	0.4%
3,525	0.4%	3,371	0.4%
11,664	1.4%	11,140	1.3%
10,436	1.2%	9,113	1.0%
5,577	0.6%	3,817	0.4%
3,008	0.3%	3,073	0.3%
2,764	0.3%	1,973	0.2%
8,322	1.0%	6,957	0.8%
10,786	1.3%	10,423	1.2%
1,653	0.2%	1,372	0.2%
2,883	0.3%	3,249	0.4%
23,560	2.7%	26,308	3.0%
$244,109	28.4%	$ 241,580	27.4%
$ 32,818	3.8%	$ 38,385	4.4%
51,353	6.0%	57,671	6.5%
$ 84,171	9.8%	$ 96,056	10.9%
$ 61,960	9.6%	$ 65,804	8.8%
50,569	23.2%	29,866	22.9%
$112,529	13.1%	$ 95,670	10.9%
5.3 times		6.5 times	
sq. ft.		sq. ft.	
511	$1,258.27	542	$1,383.65
2,752	79.17	1,564	83.84
3,263	$ 263.77	2,106	$ 418.40
23,453	58.6%	33,895	62.7%
16,551	41.4%	20,152	37.3%
40,004	100.0%	54,047	100.0%
$16.05		$13.88	
63 hours		61 hours	
55 hours		49 hours	
40 hours		40 hours	
$196.03		$236.58	
$ 66.62		$ 41.17	
12.20		17.0	

10.4%

9.6%

Table E
Sales $1,000,000–$1,500,000

Averages per Pharmacy	Total Sales $1,000,000-$1,500,000			Under 75 Prescriptions Daily (33 Pharmacies)			75 to 100 Prescriptions Daily (29 Pharmacies)		
Sales									
Prescription	$ 407,235	35.0%		$ 504,079	42.5%				
Other	756,635	65.0%		682,210	57.5%				
Total	$1,163,870	100.0%		$1,186,289	100.0%				
Cost of goods sold	812,977	69.9%		813,034	68.5%				
Gross margin	$ 350,893	30.1%		$ 373,255	31.5%				
Expenses									
Proprietor's or manager's salary	$ 51,969	4.5%		$ 56,026	4.7%				
Employees' wages	120,132	10.3%		122,337	10.3%				
Rent	42,989	3.7%		35,740	3.0%				
Heat, light, and power	11,150	1.0%		10,261	0.9%				
Accounting, legal, and other professional fees	4,774	0.4%		4,926	0.4%				
Taxes (except on buildings, income, and profit) and licenses	17,265	1.5%		14,885	1.3%				
Insurance (except on buildings)	10,879	0.9%		12,092	1.0%				
Interest paid	7,707	0.7%	10.8%	10,358	0.9%	10.9%			
Repairs	5,676	0.5%		4,124	0.3%				
Delivery	2,723	0.2%		3,162	0.3%				
Advertising	15,322	1.3%		15,628	1.3%				
Depreciation (except on buildings)	11,448	1.0%		12,041	1.0%				
Bad debts charged off	2,650	0.2%		1,201	0.1%				
Telephone	3,685	0.3%		3,276	0.3%				
Miscellaneous	32,227	2.8%		36,260	3.1%				
Total expenses	$ 340,596	29.3%		$ 342,317	28.9%				
Net profit (before taxes)	$ 10,297	0.8%		$ 30,938	2.6%				
Proprietor's withdrawals	51,969	4.5%		56,026	4.7%				
Total income of self-employed proprietor (before taxes on income and profits)	$ 62,266	5.3%		$ 86,964	7.3%				
Value of inventory at cost and as a percent of sales									
Prescription	$ 44,570	10.9%		$ 54,620	10.8%				
Other	152,761	20.2%		117,705	17.3%				
Total	$ 197,331	17.0%		$ 172,325	14.5%				
Annual rate of turnover of inventory	4.1 times			4.9 times					
Size of area and sales per square foot*	sq. ft.			sq. ft.					
Prescription	497	$821.46		516	$981.83				
Other	5,958	127.51		5,166	130.43				
Total	6,455	$180.91		5,682	$207.81				
Number of prescriptions dispensed									
New	14,528	67.6%		20,565	66.1%				
Renewed	6,974	32.4%		10,570	33.9%				
Total	21,502	100.0%		31,135	100.0%				
Prescription charge	$18.94			$16.19					
Number of hours per week									
Pharmacy was open	70 hours			72 hours					
Worked by proprietor	54 hours			70 hours					
Worked by employed pharmacist(s)	50 hours			42 hours					
Sales and prescription activity per pharmacy hours open									
Prescription sales	$111.88			$134.64					
Other sales	$207.87			$182.21					
Prescriptions dispensed	5.9			8.3					

*Based on averages of pharmacies that reported all data

	100 to 125 Prescriptions Daily (43 Pharmacies)	125 to 150 Prescriptions Daily (39 Pharmacies)	Over 150 Prescriptions Daily (60 Pharmacies)
	$ 666,682— 54.4%	$ 802,582— 68.4%	$ 920,530— 74.0%
	558,576— 45.6%	370,162— 31.6%	323,316— 26.0%
	$1,225,258—100.0%	$1,172,744—100.0%	$1,243,846—100.0%
	855,476— 69.8%	804,682— 68.6%	857,187— 68.9%
	$ 369,782— 30.2%	$ 368,062— 31.4%	$ 386,659— 31.1%
	$ 56,282— 4.6%	$ 49,477— 4.2%	$ 59,793— 4.8%
	127,232— 10.4%	126,233— 10.8%	134,350— 10.8%
	28,526— 2.3%	26,141— 2.2%	17,947— 1.4%
	10,901— 0.9%	7,384— 0.6%	6,260— 0.5%
	3,771— 0.3%	7,192— 0.6%	5,995— 0.5%
	17,734— 1.4%	15,879— 1.4%	16,626— 1.3%
	13,593— 1.1%	13,116— 1.1%	13,240— 1.1%
	7,722— 0.6%	7,925— 0.7%	7,215— 0.6%
	5,105— 0.4%	4,644— 0.4%	4,806— 0.4%
	2,955— 0.2%	4,163— 0.4%	4,543— 0.4%
	15,024— 1.2%	12,063— 1.0%	12,254— 1.0%
	11,574— 0.9%	15,248— 1.3%	14,928— 1.2%
	1,978— 0.2%	3,206— 0.3%	1,670— 0.1%
	3,028— 0.2%	4,072— 0.3%	3,957— 0.3%
	33,967— 2.8%	30,258— 2.6%	37,131— 3.0%
10.9%		10.7%	10.3%
	$ 339,392— 27.7%	$ 327,001— 27.9%	$ 340,715— 27.4%
	$ 30,390— 2.5%	$ 41,061— 3.5%	$ 45,944— 3.7%
	56,282— 4.6%	49,477— 4.2%	59,793— 4.8%
	$ 86,672— 7.1%	$ 90,538— 7.7%	$ 105,737— 8.5%
	$ 64,614— 9.7%	$ 79,031— 9.8%	$ 76,311— 8.3%
	117,130— 21.0%	86,587— 23.4%	61,038— 18.9%
	$ 181,744— 14.8%	$ 165,618— 14.1%	$ 137,349— 11.0%
	4.8 times	5.3 times	6.4 times
	sq. ft.	sq. ft.	sq. ft.
	503 $1,318.44	474 $1,696.63	605 $1,521.32
	4,882 113.70	2,891 128.26	2,565 125.39
	5,385 $ 226.33	3,365 $ 348.98	3,170 $ 391.84
	23,883— 59.8%	27,835— 57.1%	38,691— 57.7%
	16,039— 40.2%	20,899— 42.9%	28,329— 42.3%
	39,922—100.0%	48,734—100.0%	67,020—100.0%
	$16.70	$16.47	$13.74
	75 hours	69 hours	67 hours
	53 hours	59 hours	63 hours
	60 hours	53 hours	55 hours
	$170.94	$223.69	$264.22
	$143.22	$103.17	$ 92.80
	10.3	13.6	19.2

Table F
Sales Over $1,500,000

TABLE F

Averages per Pharmacy	Total Sales Over $1,500,000	
	Under 150 Prescriptions Daily (34 Pharmacies)	Over 150 Prescriptions Daily (64 Pharmacies)
Sales		
Prescription	$ 723,263— 35.5%	$1,305,336— 60.5%
Other	1,311,606— 64.5%	853,179— 39.5%
Total	$2,034,869—100.0%	$2,158,515—100.0%
Cost of goods sold	1,395,531— 68.6%	1,497,436— 69.4%
Gross margin	$ 639,338— 31.4%	$ 661,079— 30.6%
Expenses		
Proprietor's or manager's salary	$ 90,835— 4.5%	$ 83,689— 3.9%
Employees' wages	244,905— 12.0%	247,594— 11.5%
Rent	51,236— 2.5%	37,616— 1.7%
Heat, light, and power	16,921— 0.8%	12,667— 0.6%
Accounting, legal, and other professional fees	10,963— 0.5%	8,486— 0.4%
Taxes (except on buildings, income, and profit) and licenses	26,949— 1.3%	27,790— 1.3%
Insurance (except on buildings)	21,954— 1.1%	21,374— 1.0%
Interest paid	11,657— 0.6%	9,585— 0.4%
Repairs	8,825— 0.4%	7,086— 0.3%
Delivery	4,591— 0.2%	4,578— 0.2%
Advertising	25,133— 1.2%	21,603— 1.0%
Depreciation (except on buildings)	19,795— 1.0%	20,181— 0.9%
Bad debts charged off	1,062— 0.1%	6,572— 0.3%
Telephone	4,774— 0.2%	6,708— 0.3%
Miscellaneous	81,666— 4.0%	71,756— 3.3%
	11.5%	10.0%
Total expenses	$ 621,266— 30.5%	$ 587,285— 27.2%
Net profit (before taxes)	$ 18,072— 0.9%	$ 73,794— 3.4%
Proprietor's withdrawals	90,835— 4.5%	83,689— 3.9%
Total income of self-employed proprietor (before taxes on income and profits)	$ 108,907— 5.4%	$ 157,483— 7.3%
Value of inventory at cost and as a percent of sales		
Prescription	$ 66,575— 9.2%	$ 120,894— 9.3%
Other	244,902— 18.7%	141,710— 16.6%
Total	$ 311,477— 15.3%	$ 262,604— 12.2%
Annual rate of turnover of inventory	4.5 times	5.8 times
Size of area and sales per square foot*	sq. ft.	sq. ft.
Prescription	622 $1,160.70	788 $1,688.16
Other	6,668 200.65	4,781 178.67
Total	7,290 $282.55	5,559 $390.05
Number of prescriptions dispensed		
New	26,683— 66.6%	54,739— 61.4%
Renewed	13,371— 33.4%	34,342— 38.6%
Total	40,054—100.0%	89,081—100.0%
Prescription charge	$18.06	$14.65
Number of hours per week		
Pharmacy was open	76 hours	78 hours
Worked by proprietor	62 hours	64 hours
Worked by employed pharmacist(s)	81 hours	96 hours
Sales and prescription activity per pharmacy hours open		
Prescription sales	$183.01	$321.83
Other sales	$331.88	$210.35
Prescriptions dispensed	10.1	22.0

*Based on averages for pharmacies that reported all data

BALANCE SHEET AND FINANCIAL RATIOS

The primary objective of a business is to earn a satisfactory return on the funds invested in it. Owners should review balance sheet data from the standpoint of a capital investor by relating income to funds invested and evaluating the overall liquidity and profitability of the business. Financial ratios developed from balance sheet information can be used to measure return on investment, ability to meet current obligations (current ratio), solvency of the business (debt/equity ratio), and profitability.

The ability to analyze business operations by examining and interpreting accounting records is one of the keys to successful business management. Ratios calculated from financial information are not inflexible measures of success or failure; however, they can serve as general indicators of performance at given points in time. It may be more beneficial to compare a pharmacy's past financial ratios with its latest ratios and attempt to determine general trends. The financial ratios in Tables 7 and 8 involve both sales volume and store age.

Liquidity or Short-Term Capitalization

Liquidity measures the pharmacy's ability to meet its current obligations; it reflects the relationship between the store's short-term financial position and the source of funds available to meet its obligations.

$$\textbf{CURRENT RATIO} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The "current ratio" is determined by dividing the current assets (cash, inventory, and accounts receivable) by the current liabilities (accounts and notes due within one year). Creditors like to see a high current ratio because it indicates a wide margin of safety for any claims against the business. However, too high a current ratio may mean that a manager is not using funds in the most productive way. For example, the inventory of such a business may be too high.

Some observers believe that a current ratio of 2:1 is appropriate for many businesses. This value would allow assets, especially inventory, to shrink by 50% and still cover current obligations. The average current ratio for operations in the 1988 LILLY DIGEST is 3.5; newer stores had lower ratios than established stores.

Profitability

Profitability measures management's ability to increase the owner's equity.

$$\textbf{NET PROFIT ON NET SALES} = \frac{\text{Net Profit (before taxes)}}{\text{Annual Sales}}$$

Net profit, as a percent of sales, is a widely used measure of profitability. Year-to-year comparisons may demonstrate if increased profits were solely the result of increased sales or if a larger net profit figure was the result of a decreased percentage being paid for cost of goods and expenses. This measure of profitability is most useful in connection with another ratio, return on investment.

$$\textbf{RETURN ON INVESTMENT} = \frac{\text{Net Profit}}{\text{Net Worth}}$$

Net worth is the amount of the owner's equity that would be available if the total assets were liquidated and total liabilities were paid off. To determine the return on investment, the net profit before taxes is divided by the net worth. In recent years, the return-on-investment (or the return-on-equity) calculation was considered to be the broadest measure of overall performance because it evaluates how well funds, as supplied by the owner, are being utilized. Some individuals feel that a more accurate indicator of return on investment would be the return-on-total-investment figure.

Solvency or Long-Term Capitalization

Solvency is used when lenders estimate the borrowing potential of a firm. Solvency refers to the ability of a pharmacy to meet the repayment schedule of long-term obligations.

$$\textbf{DEBT/EQUITY RATIO} = \frac{\text{Total Liabilities}}{\text{Net Worth}}$$

A store in which the total debt exceeds the owner's equity is vulnerable to sharp changes in the operation. Such changes may be caused by a sudden drop in sales or a rise in expenses. On the other hand, when the debt/equity ratio is low in comparison with those of other operations, the business may not be leveraged to the best advantage.

$$\textbf{NET SALES TO NET WORTH} = \frac{\text{Net Sales}}{\text{Net Worth}}$$

This ratio examines the productivity of the equity in the generation of sales. A high ratio may imply that the owner's capitalization is inadequate or that the pharmacy is a highly leveraged operation. When the ratio is low, the operation is not making full use of its funds, and the owner's investment has become stagnant.

$$\textbf{AVERAGE PAYABLE PERIOD} = \frac{\text{Outstanding Accounts Payable} \times 365}{\text{Annual Purchases}}$$

This ratio expresses the number of days outstanding in accounts payable and measures the extent to which a business is operating on suppliers' capital. A short payable period may mean that a business is not operating on suppliers' capital. On the

Table 7 *Balance sheet and financial ratios by store age as of December 31, 1987—sales under $400,000*

Averages per Pharmacy	Store Age under 5 Years (165 Pharmacies)	Percent of Sales	Store Age over 5 Years (253 Pharmacies)	Percent of Sales
Assets				
Current assets				
Cash	$ 9,763	3.4%	$ 11,343	4.7%
Accounts receivable	10,441	3.6%	11,385	4.8%
Inventory	45,199	15.7%	48,133	20.1%
Total current assets	$ 65,403	22.7%	$ 70,861	29.6%
Fixed assets less depreciation	13,116	4.6%	10,509	4.4%
Other assets				
Prepaid expenses, deposits	2,730	0.9%	5,499	2.2%
Total assets*	$ 81,249	28.2%	$ 86,869	36.2%
Liabilities				
Current liabilities				
Accounts payable	$ 10,286	3.6%	$ 11,253	4.7%
Notes payable (within one year)	6,521	2.3%	3,436	1.4%
Accrued expenses and other liabilities	2,514	0.8%	2,644	1.1%
Total current and accrued liabilities	$ 19,321	6.7%	$ 17,333	7.2%
Long-term liabilities				
Notes payable (later than one year)	24,047	8.3%	12,297	5.1%
Total liabilities	$ 43,368	15.0%	$ 29,630	12.3%
Net Worth	37,881	13.2%	57,239	23.9%
Total liabilities and net worth*	$ 81,249	28.2%	$ 86,869	36.2%
Net working capital	$ 46,082	16.0%	$ 53,528	22.3%
Sales	$288,221	100.0%	$239,809	100.0%
Purchases	$193,711	67.2%	$198,482	82.8%
Net profit (before taxes)	$ 10,864	3.8%	$ 8,590	3.6%
Financial Ratios				
Current assets to current liabilities	3.4 times		4.1 times	
Net sales to net worth	7.6 times		4.2 times	
Net profit (before taxes) on net worth	28.7%		15.0%	
Total liabilities to net worth	114.5%		51.8%	

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

other hand, a long payable period may mean that the pharmacy is not taking suppliers' cash discounts. Credit with suppliers is easily obtained. However, when the lost cash discounts are considered, it is one of the most expensive sources of funds.

In Tables 7 and 8, balance sheet data from participating pharmacies were categorized by both sales volume and store age. Capitalization figures and financial ratios were divided into two categories—sales under $400,000 and sales over $400,000. Stores within each category are further characterized by how long they have been in business. The most important figures for the comparison of categories are those determined as percents of sales.

Tables 7 and 8 show that, during a pharmacy's first five years, long-term liabilities decrease both dollarwise and as a percent of sales, because the business becomes increasingly able to generate adequate funds to retire debt and increase net worth. The net sales to net worth ratio demonstrates this; it drops sharply as pharmacies become more established. Total debt to net worth follows a similar trend. The data also indicate that fixed assets as a percent of sales decrease as an operation matures. This is not surprising because, with time, depreciation decreases the value of fixed assets. Net working capital rises dollarwise in operations that are five years old or older. Return on investment is normally higher in newly established pharmacies because most of the capital is borrowed and the equity is small. As businesses become more established, financing shifts from debt to equity, and the return on investment falls and stabilizes at about 20%.

Table 8 *Balance sheet and financial ratios by store age as of December 31, 1987—sales over $400,000*

Averages per Pharmacy	Store Age under 5 Years (181 Pharmacies)	Percent of Sales	Store Age over 5 Years (653 Pharmacies)	Percent of Sales
Assets				
Current assets				
Cash	$ 20,276	3.9%	$ 27,978	4.3%
Accounts receivable	27,369	5.2%	26,954	4.2%
Inventory	86,926	16.7%	90,279	14.0%
Total current assets	$134,531	25.8%	$145,211	22.5%
Fixed assets less depreciation	27,064	5.2%	19,588	3.0%
Other assets				
Prepaid expenses, deposits	10,990	2.1%	8,311	1.3%
Total assets*	$172,585	33.1%	$173,110	26.8%
Liabilities				
Current liabilities				
Accounts payable	$ 26,338	5.1%	$ 26,434	4.1%
Notes payable (within one year)	10,561	2.0%	7,822	1.2%
Accrued expenses and other liabilities	6,508	1.2%	6,533	1.0%
Total current and accrued liabilities	$ 43,407	8.3%	$ 40,789	6.3%
Long-term liabilities				
Notes payable (later than one year)	61,573	11.8%	20,923	3.3%
Total liabilities	$104,980	20.1%	$ 61,712	9.6%
Net Worth	67,605	13.0%	111,398	17.2%
Total liabilities and net worth*	$172,585	33.1%	$173,110	26.8%
Net working capital	$ 91,124	17.5%	$104,422	16.2%
Sales	$520,737	100.0%	$644,143	100.0%
Purchases	$415,606	79.8%	$438,141	68.0%
Net profit (before taxes)	$ 32,499	6.2%	$ 24,399	3.8%
Financial Ratios				
Current assets to current liabilities	3.1 times		3.6 times	
Net sales to net worth	7.7 times		5.8 times	
Net profit (before taxes) on net worth	48.1%		21.9%	
Total liabilities to net worth	155.3%		55.4%	

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

RENT

The average rental expense for all pharmacies submitting figures to the LILLY DIGEST rose 4.4% in dollars and amounted to 2.4% of sales for 1987. The long-term nature of rental agreements probably accounts for the overall consistency of rent expenses over time. Rent, like other expenses, should be kept in line with sales volume if an adequate net profit is to be maintained. A fair and equitable rental expenditure should be based on realistic sales and profit projections. Leases for community pharmacies usually specify payment in terms of percent of sales, dollar figures per square foot occupied, total monthly or yearly dollar rates or some combination of these.

Table 9 shows the distribution of reported rental expenses by percent of sales and sales volume. The distribution of rent expense has changed little from that reported in previous LILLY DIGESTS. Most operations (58.7%) paid 2.5% of sales or less for rent.

Table 10 shows the evaluation of rent from several perspectives. The majority of pharmacies (58.7%) paid 2.5% of sales or less for rent, whereas 79.7% (over 1,400 operations) paid 3.5% of sales or less for rent during the past year. Owners may want to review the entire table in order to gain a broad awareness of the influence of these variables on rent.

Section A shows the effect of total sales volume on rent. As sales increase, rent generally decreases as a percent of sales, although it rises dollarwise. Rent per square foot usually increases as sales increase, but sales productivity per square foot also increases.

Section B correlates rental expense with pharmacy location. Larger stores tend to be located in shopping centers, and produce the highest total sales average of all locations. Medical office buildings have the smallest total sales average and pharmacy size, but the highest sales and rent per square foot.

Section C indicates that, as daily prescription activity advances, there is an increase in sales volume, and rent tends to decline percentagewise. This closely parallels those findings in Section A.

Section D shows the influence of store age on rental expense. As a pharmacy matures, total sales rise, and rent generally declines as a percent of sales. Stores in operation less than two years have the lowest sales per square foot but pay the highest rent as a percent of sales, partially because of the fixed nature of this expense item.

Section E correlates rental expense with geographic region. Operations in the Mountain and New England States paid the highest rent per square foot, whereas the East South Central States had the lowest rate both per square foot and as a percent of sales. The typical LILLY DIGEST pharmacy had about $16,000 in rent expense during 1987, or about $5.60 per square foot.

Table 9 *Rental percentages by sales size*

	Under $200,000	$200,000-$250,000	$250,000-$300,000	$300,000-$350,000	$350,000-$400,000	$400,000-$450,000	$450,000-$500,000	$500,000-$600,000	$600,000-$750,000	$750,000-$1,000,000	Over $1,000,000	Total	Percent of Pharmacies
Number of Pharmacies	75	83	96	141	130	143	134	210	233	259	302	1,806	100.0%
Rent as a Percent of Sales													
Less than 1.5%	8	20	17	42	41	39	35	61	68	68	100	499	27.6%
1.5% to 2.5%	13	16	26	41	33	44	43	67	87	90	101	561	31.1%
2.5% to 3.5%	14	22	30	31	25	32	35	39	45	55	52	380	21.0%
3.5% to 4.5%	20	7	11	16	15	14	11	24	14	25	23	180	10.0%
4.5% to 5.5%	7	9	5	6	4	4	6	6	10	9	8	74	
5.5% to 6.5%	5	1	2	2	6	5	2	11	5	8	11	58	
6.5% to 7.5%	—	5	1	1	3	3	1	1	—	1	3	19	
7.5% to 8.5%	1	1	—	1	1	—	—	—	1	2	3	10	
8.5% to 9.5%	4	2	—	—	2	1	—	—	2	—	1	12	10.3%
9.5% to 10.5%	—	—	3	—	—	1	1	—	—	1	—	6	
10.5% to 11.5%	—	—	—	—	—	—	—	1	—	—	—	1	
11.5% to 12.5%	—	—	—	1	—	—	—	—	1	—	—	2	
12.5% and over	3	—	1	—	—	—	—	—	—	—	—	4	

Table 10 *Rent correlated with various factors*

A Annual Sales	Average Sales	Size of Pharmacy (Sq. Ft.)*	Sales per Square Foot	Average Rent	Rent per Square Foot	Rent Percentage
Under $200,000	$ 156,623	1,283	$121.27	$ 6,290	$ 4.90	4.0%
$200,000 to $250,000	228,176	1,249	182.75	6,887	5.51	3.0%
$250,000 to $300,000	276,399	1,618	170.70	8,401	5.19	3.0%
$300,000 to $350,000	323,966	1,578	205.28	7,811	4.95	2.4%
$350,000 to $400,000	375,961	2,764	136.11	9,845	3.56	2.6%
$400,000 to $450,000	424,696	2,356	180.28	10,646	4.52	2.5%
$450,000 to $500,000	473,969	2,180	217.52	11,277	5.17	2.4%
$500,000 to $600,000	551,582	2,448	225.35	13,082	5.34	2.4%
$600,000 to $750,000	672,267	2,846	236.24	15,315	5.38	2.3%
$750,000 to $1,000,000	861,206	3,252	264.76	20,324	6.25	2.4%
$1,000,000 to $1,500,000	1,205,216	4,572	263.17	28,523	6.19	2.4%
Over $1,500,000	2,115,617	6,162	345.75	42,342	6.87	2.0%
B Location						
Downtown	$ 771,022	3,102	$260.77	$18,717	$ 6.03	2.4%
Neighborhood	649,235	3,003	222.49	13,366	4.45	2.1%
Shopping Center	802,954	3,388	244.42	22,572	6.66	2.8%
Medical Office Building	520,648	1,028	513.97	15,867	15.43	3.0%
C Number of Prescriptions Dispensed Daily						
Under 25	$ 251,990	1,770	$145.81	$ 9,232	$ 5.22	3.7%
25 to 35	305,909	2,157	148.24	9,714	4.50	3.2%
35 to 50	378,609	2,386	163.86	10,124	4.24	2.7%
50 to 60	490,916	2,520	204.74	13,486	5.35	2.7%
60 to 75	574,149	2,778	216.61	15,316	5.51	2.7%
75 to 100	710,448	3,031	246.98	17,419	5.75	2.5%
100 to 125	953,773	3,545	279.14	22,082	6.23	2.3%
125 to 150	1,063,684	2,938	385.98	21,318	7.26	2.0%
150 to 200	1,298,199	3,384	411.73	22,096	6.53	1.7%
Over 200	1,936,070	4,742	443.52	30,570	6.45	1.6%
D Number of Years Pharmacy Has Been in Operation						
Less than 2 years	$ 473,566	1,927	$245.77	$12,550	$ 6.51	2.7%
2 to 5 years	543,860	2,365	229.92	14,452	6.11	2.7%
5 to 10 years	602,234	2,542	236.89	15,097	5.94	2.5%
Over 10 years	775,571	3,227	240.37	17,159	5.32	2.2%
E Geographic Region						
New England States	$ 813,520	2,386	$331.44	$18,740	$ 7.85	2.3%
Middle Atlantic States	786,527	2,610	299.95	16,983	6.51	2.2%
East North Central States	774,174	3,302	234.29	17,160	5.20	2.2%
West North Central States	578,486	2,705	209.14	13,403	4.95	2.3%
South Atlantic States	613,012	2,656	233.13	13,034	4.91	2.1%
East South Central States	617,875	2,652	223.26	11,384	4.29	1.8%
West South Central States	526,719	2,468	214.30	12,724	5.16	2.4%
Mountain States	692,973	3,684	188.84	21,353	5.80	3.1%
Pacific States	699,432	2,683	259.71	20,130	7.50	2.9%
LILLY DIGEST Average	678,148	2,824	233.02	15,931	5.64	2.4%

*Based on averages of pharmacies that reported all data

GEOGRAPHIC SUMMARY

Pharmacy managers have suggested that sales and expenses are altered by factors which seem to vary by geographic location such as cost of living, population density, competition, pharmacy manpower, and third party prescription activity. Table 11 presents pharmacy operating statistics according to nine geographic regions.

The highest average prescription charge ($17.50) was reported in the Pacific States. The lowest ($13.38) was reported in the East South Central States. This variation of over $4.00 between the highest and lowest regions was one of the largest disparities seen in recent years. The Pacific region ranked highest in gross margin, total wage package and total expenses; however, pharmacies located in this region shared in having the shortest average operating hours. Pharmacies in the New England States reported the highest sales volume and the lowest inventory of any region, but this area also reported the lowest net profit and highest number of hours open.

The West South Central States reported

Table 11 *Summary by geographic regions in 1987*

Geographic Region	Total Sales ($000)	Ratio of Prescription Sales to Total Sales	Gross Margin	Total Wage Package	Rent
New England States (CT, ME, MA, NH, RI, VT)	$813.5	62.6%	30.5%	15.2%	2.3%
Middle Atlantic States (NJ, NY, PA)	$786.5	64.4%	30.4%	14.6%	2.2%
East North Central States (IL, IN, MI, OH, WI)	$774.2	65.2%	31.1%	15.5%	2.2%
West North Central States (IA, KS, MN, MO, NE, ND, SD)	$578.5	64.4%	32.0%	15.7%	2.3%
South Atlantic States (DE, DC, FL, GA, MD, NC, SC, VA, WV)	$613.0	73.7%	31.9%	15.6%	2.1%
East South Central States (AL, KY, MS, TN)	$617.9	73.7%	33.1%	16.2%	1.8%
West South Central States (AR, LA, OK, TX)	$526.7	75.9%	33.2%	15.6%	2.4%
Mountain States (AZ, CO, ID, MT, NV, NM, UT, WY)	$693.0	52.7%	30.8%	15.0%	3.1%
Pacific States (AK, CA, HI, OR, WA)	$699.4	65.7%	35.8%	17.1%	2.9%
Lilly Digest Average	$678.1	66.5%	32.1%	15.7%	2.4%

the lowest sales volume in 1987. Interestingly, pharmacies located there reported the highest ratio of prescription sales to total sales and shared the shortest hours of operation with the Pacific region. The region reporting the highest net profit (4.6%) was the East South Central region. This region had the lowest rent as a percent of sales, the highest volume of prescriptions, and one of the higher ratios of prescription sales to total sales.

Overall, six of the nine regions showed increases in net profit over the previous year, a reflection of the increase in net profit shown in the overall DIGEST sample. The Pacific States showed the greatest increase in net profit during 1987.

The geographic summary data were designed to show differences in pharmacies based on geographic location. It is suggested that a manager first compare pharmacy operating data with statistics in "The Heart of the LILLY DIGEST." The regional information may then be used to examine variations from the averages and, perhaps, justify them.

Total Expenses	Net Profit	Inventory at Cost	Number of Prescriptions	Average Prescription Charge	Pharmacy Hours Open per Week	Employed Pharmacist(s) Hours Worked per Week
29.4%	1.1%	12.4%	33,591	$15.16	68	35
26.6%	3.8%	14.0%	33,515	$15.12	67	35
28.3%	2.8%	13.7%	33,215	$15.20	63	37
29.2%	2.8%	16.2%	24,745	$15.05	60	29
27.9%	4.0%	13.3%	29,284	$15.43	58	27
28.3%	4.6%	14.1%	34,013	$13.38	59	25
29.6%	3.6%	14.2%	25,307	$15.80	55	21
28.1%	2.7%	16.7%	23,265	$15.69	60	33
31.5%	4.3%	13.3%	26,242	$17.50	55	31
28.8%	3.3%	14.1%	29,333	$15.37	60	31

OPERATING TRENDS

Ten-Year Trends in Pharmacy Operations

Chart 1 illustrates the ten-year upward trend of total sales for LILLY DIGEST participants through 1987. Sales revenue during 1987 rose about 4% over the previous year's figure, a growth rate lower than the average of 9.2% observed during the past decade.

In Table 12, pharmacy operating data are shown as percents of sales for each year during the decade. Interestingly, the cost of goods sold has risen from 65.3% to 67.9%. Over the same ten-year period, employees' wages have generally decreased in relation to total sales, as have total expenses, but not enough to offset the uptrend in cost of goods sold. The result is that net profit has generally declined. However, profit during 1987 rose substantially to 3.3% of sales. Proprietor's salary increased 44% in dollars over the past decade and rent increased more than 80%, but both expenses showed a downtrend as percents of sales. Inventory has decreased steadily over the past decade and now stands at 14.1% of sales, the lowest during the past ten years.

Ten-Year Trends in Balance Sheet and Financial Ratio Data

Table 13 shows ten-year trends in balance sheet data, expressed as percents of sales, along with selected financial ratios. Cash as a percent of sales increased to the highest level of the decade at 4.1% while inventory dropped substantially. Both current liabilities and current assets decreased and yielded the highest current ratio during the past ten years. Fixed assets, on the other hand, declined to 3.5% of sales, which may indicate that store owners should evaluate the need for

Chart 1

A Decade of Sales Growth

Table 12 *Averages of pharmacy operations—1978-1987 (based on all pharmacies reporting)*

Year	Sales	Cost of Goods Sold	Gross Margin	Proprietor's Salary	Employees' Wages	Rent	Other Expenses	Total Expenses	Net Profit	Inventory at Cost
1978	345,302	65.3	34.7	6.9	11.5	2.5	10.4	31.3	3.4	16.5
1979	391,681	65.7	34.3	6.5	11.9	2.5	10.4	31.3	3.0	16.3
1980	416,161	65.7	34.3	6.3	11.8	2.4	10.5	31.0	3.3	16.1
1981	439,133	65.7	34.3	6.3	11.5	2.5	10.8	31.1	3.2	15.7
1982	498,021	66.4	33.6	6.0	11.3	2.4	11.0	30.7	2.9	15.3
1983	528,864	66.9	33.1	6.0	10.8	2.4	11.0	30.2	2.9	14.9
1984	571,313	67.0	33.0	5.8	10.5	2.4	11.2	29.9	3.1	15.0
1985	593,918	67.4	32.6	5.9	10.2	2.4	11.3	29.8	2.8	14.9
1986	653,593	67.8	32.2	5.9	10.0	2.3	11.3	29.5	2.7	14.3
1987	678,148	67.9	32.1	6.3	9.4	2.3	10.7	28.8	3.3	14.1

updating and remodeling store fixtures. The increase in net profit reported during 1987 should translate to higher retained earnings, some of which may be invested in fixed assets during 1988 and 1989. Total liabilities declined to 11.4% of sales, the lowest figure during the past decade. Net working capital rose to 16.2% of sales, equaling the 1977 figure.

For the past decade, the current ratio (current assets to current liabilities) has remained relatively stable at about three times; this suggests that the typical pharmacy owner is maintaining sufficient funds to satisfy current obligations. However, the net sales to net worth uptrend implies that LILLY DIGEST pharmacies have become more highly leveraged.

Return on investment was the healthiest seen in recent years, pushing up to over 24%. Pharmacists reported that during 1986, return on investment had dropped below 20% for the first time in recent years. The reversal noted during 1987 put return on investment more in line with figures noted earlier in the decade. Total debt to net worth, an indication of how highly leveraged an operation is, declined from figures noted during previous years. This decline in owners' indebtedness may indicate that profits are being used to retire debt and thereby increase the solvency of an operation.

Table 13 *Ten-year balance sheet trends*

	1987	1985	1983	1981	1979	1977
	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales
Assets						
Current assets						
Cash	4.1%	3.5%	3.4%	3.2%	3.3%	3.8%
Accounts receivable	4.2%	4.1%	3.7%	3.8%	3.8%	3.9%
Inventory	14.4%	15.3%	15.3%	16.0%	16.4%	16.4%
Total current assets	22.7%	22.9%	22.4%	23.0%	23.5%	24.1%
Fixed assets						
Fixtures and equipment and leasehold improvements (net after reserve for depreciation)	3.5%	4.1%	3.8%	3.7%	3.9%	3.8%
Other assets						
Prepaid expenses, deposits, etc.	1.4%	1.4%	1.4%	1.5%	1.5%	1.4%
Total assets*	27.6%	28.4%	27.6%	28.2%	28.9%	29.3%
Liabilities						
Current and accrued liabilities						
Accounts payable	4.1%	4.3%	4.3%	4.5%	4.6%	4.7%
Notes payable (within one year)	1.4%	1.7%	1.5%	1.6%	1.6%	1.6%
Accrued expenses and other liabilities	1.0%	1.1%	1.6%	1.6%	1.5%	1.5%
Total current and accrued liabilities	6.5%	7.1%	7.4%	7.7%	7.7%	7.8%
Long-term liabilities						
Notes payable (later than one year)	4.9%	4.9%	4.4%	4.3%	4.2%	4.1%
Total liabilities	11.4%	12.0%	11.8%	12.0%	11.9%	11.9%
Net Worth	16.2%	16.4%	15.8%	16.2%	17.0%	17.4%
Total liabilities and net worth*	27.6%	28.4%	27.6%	28.2%	28.9%	29.3%
Net working capital	16.2%	15.8%	15.0%	15.3%	15.7%	16.2%
Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Purchases	68.0%	67.1%	67.5%	66.7%	66.6%	66.5%
Net profit (before taxes)	3.9%	3.3%	3.4%	3.3%	3.5%	3.6%
Financial Ratios						
Current assets to current liabilities	3.5 times	3.2 times	3.0 times	3.0 times	3.0 times	3.1 times
Net sales to net worth	6.2 times	6.1 times	6.3 times	6.2 times	5.9 times	5.8 times
Net profit (before taxes) on net worth	24.3%	20.0%	21.2%	20.6%	20.7%	20.8%
Total debt to net worth	70.0%	74.1%	74.6%	74.2%	71.3%	69.5%

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

PHARMACY LOCATION

The operating statistics of LILLY DIGEST pharmacies according to location are presented in Table 14. When compared with 1986 data, neighborhood stores increased to over half of the 1987 sample while participants located in shopping centers dropped in number.

Shopping center locations again reported the highest average sales, largest floor area, and longest store hours. These units also had the most hours worked per week by employed pharmacists and the highest dollar figure for rent. Prescription revenue increased from 55.9% of sales in 1986 to 64.0% in 1987 and, as expected, the net profit also increased, rising to 2.9% from 2.6%.

Downtown operations reported the largest gain in total sales (15%) of all locations analyzed. These stores averaged more prescriptions dispensed per pharmacy than any other location.

Neighborhood operations represented the largest percentage of stores reporting. Net profit was close to that of the LILLY DIGEST average at 3.3%. Neighborhood pharmacies paid the lowest rent per square foot and had the lowest total rental expense. This group also reported the lowest average prescription charge.

Medical building pharmacies reported the highest net profit and the fewest weekly hours open. These operations also had the highest gross margin percentage and total income for the proprietor as a percent of sales. Rental expense per square foot was the highest at $15.43 but each foot produced sales exceeding $500.

Table 14 *Summary of pharmacy operations by location*

Averages per Pharmacy	Downtown Business District (363 Pharmacies)	Neighborhood (951 Pharmacies)	Shopping Center (230 Pharmacies)	Medical Building (201 Pharmacies)
Sales				
Prescription	$509,125— 66.0%	$419,552— 64.6%	$513,743— 64.0%	$431,982— 83.0%
Other	261,897— 34.0%	229,683— 35.4%	289,211— 36.0%	88,666— 17.0%
Total	$771,022—100.0%	$649,235—100.0%	$802,954—100.0%	$520,648—100.0%
Cost of goods sold	526,087— 68.2%	442,916— 68.2%	546,384— 68.0%	338,717— 65.1%
Gross margin	$244,935— 31.8%	$206,319— 31.8%	$256,570— 32.0%	$181,931— 34.9%
Expenses				
Proprietor's or manager's salary	$ 45,178— 5.9%	$ 40,926— 6.3%	$ 47,339— 5.9%	$ 41,350— 7.9%
Employees' wages	77,011— 10.0%	60,212— 9.3%	76,750— 9.6%	42,592— 8.2%
Rent	18,717— 2.4%	13,366— 2.1%	22,572— 2.8%	15,867— 3.0%
Miscellaneous operating costs	81,189— 10.5%	70,384— 10.8%	86,898— 10.8%	52,893— 10.2%
Total expenses	$222,095— 28.9%	$184,888— 28.5%	$233,559— 29.1%	$152,702— 29.3%
Net profit (before taxes)	$ 22,840— 2.9%	$ 21,431— 3.3%	$ 23,011— 2.9%	$ 29,229— 5.7%
Proprietor's withdrawals	45,178— 5.9%	40,926— 6.3%	47,339— 5.9%	41,350— 7.9%
Total income of self-employed proprietor (before taxes on income and profits)	$ 68,018— 8.8%	$ 62,357— 9.6%	$ 70,350— 8.8%	$ 70,579— 13.6%
Value of inventory at cost and as a percent of sales				
Prescription	$ 50,496— 9.9%	$ 44,793— 10.7%	$ 53,076— 10.3%	$ 45,280— 10.5%
Other	51,829— 19.8%	51,040— 22.2%	64,210— 22.2%	12,472— 14.1%
Total	$102,325— 13.3%	$ 95,833— 14.8%	$117,286— 14.6%	$ 57,752— 11.1%
Annual rate of turnover of inventory	5.2 times	4.7 times	4.8 times	6.1 times
Size of area and sales per square foot*	sq. ft.	sq. ft.	sq. ft.	sq. ft.
Prescription	467 $1083.80	425 $981.09	470 $1077.69	484 $892.15
Other	2,635 101.02	2,578 88.30	2,918 97.40	544 162.43
Total	3,102 $ 260.77	3,003 $222.49	3,388 $ 244.42	1,028 $513.97
Rent per square foot*	$6.03	$4.45	$6.66	$15.43
Number of prescriptions dispensed				
New	19,737— 60.0%	17,398— 62.2%	20,535— 64.8%	17,622— 65.0%
Renewed	13,151— 40.0%	10,573— 37.8%	11,132— 35.2%	9,504— 35.0%
Total	32,888—100.0%	27,971—100.0%	31,667—100.0%	27,126—100.0%
Prescription charge	$15.48	$15.00	$16.22	$15.93
Number of hours per week				
Pharmacy was open	63 hours	61 hours	64 hours	51 hours
Worked by proprietor	54 hours	57 hours	54 hours	44 hours
Worked by employed pharmacist(s)	34 hours	28 hours	39 hours	31 hours

*Based on averages of pharmacies that reported all data

CONCLUSION

The year 1987 was an excellent one for independent retail pharmacies. Average sales set a record at $675,000 and net profit reversed a downtrend during recent years, averaging 3.3%. Pharmacy managers seem to have controlled inventory costs, stabilized expenses, and increased prescription activity, all of which contributed to a sound financial picture.

The prescription area grew to over 66% of sales, confirming pharmacy managers' long-term emphasis on prescription activity. Community pharmacists have long been active in patient counseling and patient communication. The value of this information to customers and their families has helped make the community pharmacist one of the most trusted professionals in the eyes of the general public.

The objective of the first LILLY DIGEST, which reported on the 1932 operations of 271 pharmacies, was to provide authentic and useful data on retail pharmacy operations so that owners, managers, and their accountants could evaluate individual stores and, perhaps, be more successful. This objective has remained unchanged through the years.

An opportunity to obtain a personal analysis by Lilly of a pharmacy's operation can be obtained by any independent pharmacist. A convenient form appears on page 37 with which to take advantage of this free and confidential service.

ANALYSIS WORK SHEET

If you wish to perform your own analysis, this work sheet will be useful . . .
fill in and compare

Income and Expense Statement	Current Data (Dollars)	Current Data (% of Sales)	Last Year's Data (% of Sales)	Dun's Digest Data (Comparable Category) (see page 13)	Notes (● or ●)
Net sales	$	%	%	%	
Inventory (start of period) of goods at cost	$	%	%	%	
Total amount of merchandise purchased	$	%	%	%	
Cost of goods sold	$	%	%	%	
Gross margin (net sales less cost of goods sold)	$	%	%	%	
Expenses					
Proprietor's or manager's salary	$	%	%	%	
Employees' wages	$	%	%	%	
Rent	$	%	%	%	
Heat, light, power, and telephone	$	%	%	%	
Accounting, legal, and other professional fees	$	%	%	%	
Taxes (except on buildings, income, and profit) and licenses	$	%	%	%	
Insurance (except on buildings)	$	%	%	%	
Interest paid	$	%	%	%	
Computer	$	%	%	%	
Depreciation (except on buildings)	$	%	%	%	
Miscellaneous	$	%	%	%	
Total expenses	$	%	%	%	
Net operating profit (gross margin less total expenses)	$	%	%	%	

Balance Sheet	Current Data (Dollars)	Current Data (% of Sales)	Last Year's Data (% of Sales)	Dun's Digest Data (Comparable Category) (see pages 25-27)	Notes (● or ●)
Current assets					
Cash	$	%	%	%	
Accounts receivable	$	%	%	%	
Merchandise inventory	$	%	%	%	
Total current assets	$	%	%	%	
Fixed assets (exclude land and buildings)					
Fixtures, equipments, leasehold improvements	$	%	%	%	
Less depreciation reserve	$	%	%	%	
Net fixed assets	$	%	%	%	
Other assets (prepaid expenses, deposits)	$	%	%	%	
Total assets	$	%	%	%	
Current liabilities					
Accounts payable	$	%	%	%	
Notes payable (within one year)	$	%	%	%	
Accrued expenses and other liabilities	$	%	%	%	
Total current liabilities	$	%	%	%	
Long-term liabilities (notes payable later than one year)	$	%	%	%	
Total liabilities	$	%	%	%	
Net worth	$	%	%	%	

Your self-analysis work sheet continues on the next page

Other Calculations	Current Data	Last Year's Data	Lilly Digest Data (Comparable Categories) (see pages 13 and 25-27)	Notes (◆ or ◆)
Inventory turnover	times	times	times	
Prescription sales prescription inventory	$	$	$	
Average prescription charge	$	$	$	
Number of prescriptions				
Current assets current liabilities	times	times	times	
Net sales net working capital	times	times	times	
Long-term liabilities net working capital	%	%	%	
Accounts payable outstanding	days	days	days	
Net profit net worth	%	%	%	

If you would like to have the Lilly Analysis Service analyze your financial data for the current year, just complete the "current data" column, the income and expense statement, the balance sheet and the supplemental information section below. Then, mail the analysis work sheet to Eli Lilly and Company, Department MC-698, Building 74/5, Indianapolis, Indiana 46285.

Supplemental Information

Size of pharmacy: _____ sq. ft.

Size of prescription department: _____ sq. ft.

Years and type of operation under same ownership:

☐ Under 2 ☐ 2 to 5 ☐ 5 to 10 ☐ Over 10

Sole proprietorship ☐ Partnership ☐ Corporation

Pharmacy location:

☐ Metropolitan (population over 50,000) ☐ Rural (population under 50,000)

☐ Traditional ☐ Shopping center ☐ Medical office building

Business space is? ☐ Rented ☐ Owned

Figures submitted last year? ☐ Yes ☐ No

Number of prescriptions dispensed:
(For the period of time covered
by the Income and Expense Statement)

New _____

Renewals _____

Total _____

Total prescription receipts: $ _____

Prescription inventory: $ _____

Individual Analysis (Send individual analysis to:)

Name or P.O. Box _____

Street _____

City _____ State _____

Zip Code _____

REFER INQUIRIES TO: WILLIAM J. FLOHRS, RPh
(317-276-6009)

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